SECTOR OUTLOOK

NEGATIVE

Cement: Sector Report

Testing times

December 2008

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Cement

Testing times!

Sector Report | 16 December 2008

Sector outlook - Negative: Given the current conditions of low volume growth and margin compression, we have a negative outlook on the cement sector. We have revised our estimates and target P/E multiple downward for certain companies in our cement universe where we see a higher risk to earnings.

Long-term value picks emerging: Despite the structural downturn in the sector, we believe that select companies are at attractive valuations and represent long-term value picks, given their completed capacity expansion plans and lower risk to cash flows and earnings. These companies could benefit in the event of delays in capacity additions by competitors whose expansion plans are set to materialise at later dates. We prefer Grasim Industries in the large-cap space, UltraTech and Shree Cement in the mid-cap space and Orient Paper among the small-caps.

EV/Tonne at lower levels, re-rating in case of M&A: All cement companies under our coverage are trading at a significant discount to replacement cost. While the current replacement cost is US$ 130/tonne, our large-cap universe is trading in the range of US$ 70–100. We believe M&A activity could be a potential trigger to narrowing this discount.

Weak underlying factors to subdue demand: With fears of excess supply and a lack of housing and commercial demand in key markets, cement volume sales are bound to slow down before the economy gets back on track. We have assumed demand growth of 8% and 7% in FY09 and FY10 respectively for our cement universe.

Oversupply inevitable: We believe the cement sector would witness a situation of oversupply in the next two years as most companies are in the midst of large capacity expansion programmes. Effective capacity is projected to increase by 9% and 28% in FY09 and FY10 respectively, much ahead of demand, with the northern and southern regions experiencing the highest surplus levels.

Realisations and margins under pressure: Lower demand owing to the current real estate slowdown in conjunction with the cement capacity build-up would exert pressure on realisations in the medium term. We have assumed a 4-6% drop in realisations in FY09 and FY10 for all companies under our coverage. Falling volumes and realisations could dent EBITDA margins going forward. We expect a margin contraction of 430bps in FY09 and 200bps in FY10 for our coverage universe to 27.4% and 25.4% respectively.

Earnings more sensitive to drop in pricing: Companies from the RHH cement universe are more susceptible to a drop in cement prices than a drop in volume sales. We expect JK Lakshmi Cement, Mangalam Cement and ACC to witness a higher impact on earnings than other companies in the event of lower-than-anticipated realisations. Owing to their diversified lines of business, Grasim and Orient Paper's earnings would show less volatility. In regards to a volume drop, JK Lakshmi and ACC would witness the sharpest decline in EPS, whereas Grasim and UltraTech would take the least hit.

Recommendation snapshot

Company	CMP	Target	Reco
ACC	514	430	Sell
Ambuja Cement	67	49	Sell
Birla Corporation	116	127	Accumulate
Grasim Industries	1,174	1,344	Buy
India Cements	100	102	Reduce
JK Lakshmi Cement	41	37	Sell
Mangalam Cement	48	44	Sell
Orient Paper & Ind	21	39	Buy
Shree Cement	460	485	Accumulate
UltraTech Cement	347	409	Buy

Value picks

Segment	Company
Large-cap	Grasim Industries
Mid-cap	UltraTech Cement, Shree Cement
Small-cap	Orient Paper

Stocks to Avoid

Segment	Company
Large-cap	ACC, Ambuja Cement
Mid-cap	India Cements
Small-cap	Mangalam Cement, JK Lakshmi

RHH Research is also available on Bloomberg FTIS <GO> and Thomson First Call

Contents

Sector outlook negative but value picks emerging

Value buys emerging in the aftermath of steep price corrections

Given the current conditions of low volume growth and margin compression, we have a negative view on the cement sector. We believe a sector-wide re-rating would occur only on positive triggers such as demand growth, a lower-than-anticipated price correction and margin improvement. At the same time, we do believe that select companies in the RHH universe are emerging as long-term value buys, after witnessing a steep correction in stock price over the past 6–9 months.

Long-term value picks emerging: Grasim, UltraTech, Orient Paper our top buys

We have lowered our target P/E multiple for certain companies in our cement universe considering the demand slowdown, margin pressure and lower profitability. However, our stress-case analysis (a further 5% drop in volumes and realisation from our current estimates for both FY10 and FY11) suggests that the best picks in the sector remain Grasim Industries in the large-cap space, UltraTech Cement and Shree Cement in the mid-cap space, and Orient Paper & Industries from the small-caps.

Grasim and UltraTech best placed to ride out the storm

Apart from being less vulnerable to reduced volumes and pricing, these companies have already completed their capex programme, which signifies lower pressure on free cash flows going forward. In addition, these companies are in a better position to corner demand in case of delays in capacity augmentation by competitors. Given their lower risk to cash flows and earnings coupled with compelling valuations, we believe these stocks represent attractive long-term value picks.

The table below shows the implied P/E derived from stress-case valuations. Applying our target P/E multiple on the stress-case EPS, we have arrived at the minimum stock price and steepest possible downside for our coverage universe (excluding Grasim which is a conglomerate and hence warrants an SOTP valuation).

Sensitivity analysis based on a further 5% drop in both volumes and price from our estimates

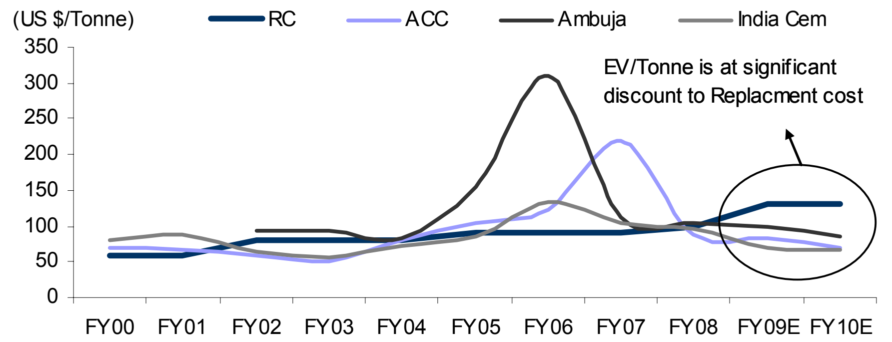
Company	EPS (Rs)		Implied P/E (x)		Target P/E multiple (x)	Minimum price on stress-case EPS (Rs)	CMP (Rs)	Downside with stress-case valuation (%)
	Base case FY10E	Stress case FY10E	Base case FY10E	Stress case FY10E				
ACC	52.0	32.2	9.4	15.2	9.5	253	514	(51)
Ambuja Cement	6.0	4.1	10.3	15.0	9.5	33	67	(51)
Birla Corp	39.7	26.5	2.9	4.4	3.5	79	116	(32)
India Cements	19.1	12.7	5.0	7.5	6.0	62	100	(38)
Shree Cement	103.9	71.2	4.3	6.3	5.0	313	460	(32)
UltraTech Cement	63.2	43.4	5.4	7.8	7.0	268	347	(26)
JK Lakshmi Cement	22.2	9.6	1.8	4.1	2.0	11	41	(73)
Mangalam Cement	25.2	15.0	1.8	3.1	2.0	23	48	(52)
Orient Paper	12.8	10.1	1.7	2.2	3.0	31	21	47

Source: RHH

Stocks trading at a significant discount on EV/Tonne basis

All cement companies under our coverage are trading at a significant discount on replacement cost basis. While the current replacement cost is US$ 130/tonne, our large-cap universe is trading in the range of US$ 70–100/tonne. In the last bear cycle (FY01–FY02), company like ACC was trading at US$ 55/tonne while the replacement cost was ~US$ 80/tonne.

Replacement cost



Source: RHH

M&A activity to gather pace in FY10-FY11, leading to a re-rating for large players

M&A activity could be a key trigger for valuation re-rating

EV/Tonne typically improves in case of M&A activity in the industry. Such deals are currently at a standstill as sellers are demanding high valuations given the surge in replacement cost to US$ 130/tonne. With the current turmoil in the sector and sharp fall in stock prices, we expect M&A activity to pick up in FY10-FY11. This could be a key trigger to narrow the discount to replacement cost for large cement companies, implying a re-rating for these players.

Weak underlying factors to subdue demand growth

All-India cement demand-supply matrix

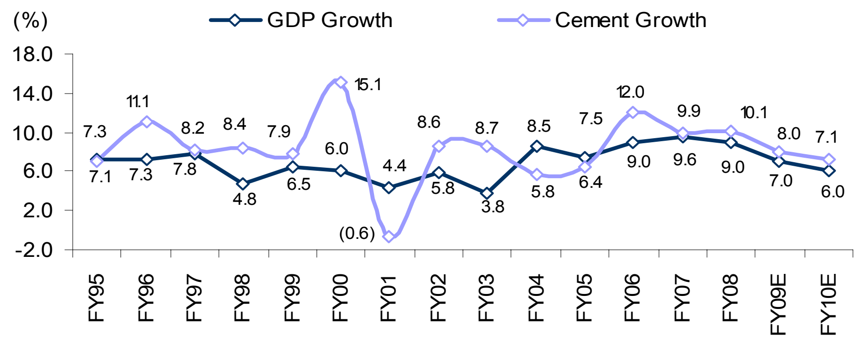
(mn MT)	FY05	FY06	FY07	FY08	FY09E	FY10E	FY11E
Installed capacity	150.1	157.1	165.6	175.7	217.5	253.7	287.8
Defunct capacities	5.5	5.5	6.0	6.0	4.5	4.5	4.5
Actual capacities	**144.6**	**151.6**	**159.5**	**169.6**	**213.0**	**249.2**	**283.3**
Capacity growth	-	*5%*	*5%*	*6%*	*26%*	*17%*	14%
Effective capacities for production	144.6	151.6	159.5	169.6	185.1	236.3	265.4
Effective production	127.6	141.8	155.3	168.3	177.6	203.3	228.1
% Growth	-	*11%*	*10%*	*8%*	*5%*	*14%*	12%
Effective cap utilisation	88%	94%	97%	99%	96%	86%	86%
Cement despatches	**124.9**	**141.6**	**154.9**	**167.7**	**178.2**	**190.8**	**204.8**
% Growth	-	*13%*	*9%*	*8%*	*6%*	*7%*	7.9%
Domestic consumption	**121.1**	**135.6**	**149.0**	**164.0**	**177.1**	**189.8**	**205.8**
% Growth	-	*12.0%*	*9.9%*	*10.1%*	*8.0%*	*7.1%*	8%
Surplus/(Deficit)	**2.6**	**0.2**	**0.4**	**0.6**	**(0.6)**	**12.5**	**22.3**
Surplus/(Deficit) as a % of effective cap	2%	0%	0%	0%	0%	5%	8%

Source: RHH

Muted demand CAGR of 7–8% expected over the next three years

Demand for cement can be gauged from the country's economic performance, with demand typically averaging 1.2x GDP growth. We believe the growth in cement consumption will decelerate over the next two years as the real estate sector – a key demand driver – is witnessing a downturn. We have assumed demand growth of 8% and 7% for FY09 and FY10 respectively, which is lower than that seen over the past three years.

GDP growth v/s Cement demand growth



Source: RHH, CMA

Under-construction activity

Particulars (mn sq ft)	FY08	Currently
DLF	63	64
HDIL	88	88
Parsvnath Developers	79	81

Source: Company, RHH

Real estate slowdown to lower cement offtake

The slump in the domestic real estate sector is a major cause for concern since ~60% of cement demand comes from the sector. Over the next one year we are likely to witness slower cement offtake from the sector on account of construction delays.

Liquidity crunch hampering project execution: According to our real estate analyst, Suman Memani, dwindling demand and a worsening liquidity situation are forcing construction delays, causing developers to reschedule their construction plans and push back new launches. After increasing substantially in FY08, under-construction activity has stagnated over the last 8–10 months, implying lower cash outflows towards projects. The table below lists projects that were announced for launch in 2008 but have been postponed. We anticipate a further deceleration both in launches and project execution as the economic slowdown deepens.

Developers are rescheduling development plans due to a lack of funds and poor demand

Realty project delays

Company	Project	Scheduled	Expected	Delay
Unitech	Fresco and The Close, Gurgaon	Dec '08	Dec '09	12 months
Unitech	Ph-I of Unitech Grande, Noida	Jan '10	Jul '10	At least 6 months
Parsvnath Dev	Exotica, Gurgaon	NA	Q2CY09	3–4 months
DLF	Pinnacle & Icon, Gurgaon	Q2CY08	Q1CY09	8–9 months
Godrej Properties	Godrej Woodsman Estate, Bangalore	Nov '08	April-May '09	5–6 months

Source: livemint.com

Muted growth in IT sector to lower demand for office space: We expect demand for office space to slacken as companies shelve or defer expansion plans amid fears of a prolonged global recession. Muted growth in the IT/ITeS sector, in particular, would shrink demand. IT/ITeS accounts for 75–80% of the office space across India and lower growth in employee recruitment for the sector shall translate to muted demand of 20mn sq ft (msf) and 13msf during FY09 and FY10 respectively.

While factoring in requirements from other sectors, we arrive at a pan-India office space requirement of 40msf and 26msf during FY09 and FY10 respectively. This is significantly lower than the office space created in 2006 (45.5msf) and 2007 (47.5msf).

Demand estimation for commercial space

Particulars	FY08E	FY09E	FY10E	FY11E	
Total employees in IT/ITES (figs in '000s)	1,996	2,196	2,327	2,676	Estimates factor in current slowdown in IT sector
Growth (% YoY)	23.1	10	6	15	
Incremental employees (figs in '000s)	375	200	132	349	
Office space requirement from IT/ITeS (msf)	56	30	20	52	Assuming 0.15msf/100 employees
Other sectors requirement (25%) (msf)		10	7	17	Share of other sectors assumed at 25%
Pan-India office space requirement (msf)		40	26	70	

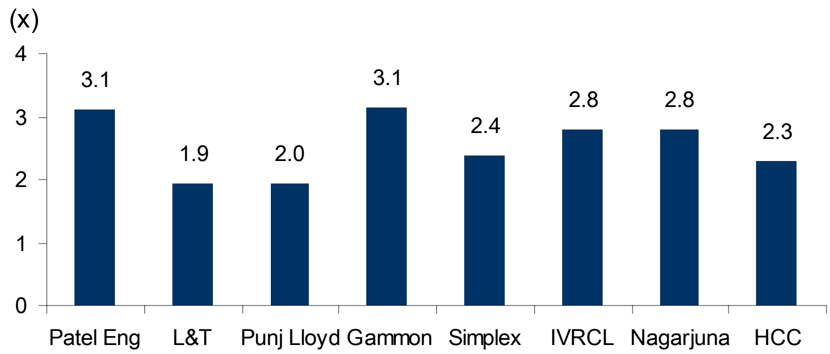
Source: Nasscom-Strategic Review 2008, RHH

Infrastructure a major demand driver…

As per our construction analyst, Nimit Shah, most companies in the construction and infrastructure space have a healthy order book to sales ratio, in the range of 2–3x FY09E sales. This will boost demand for cement and expand the infrastructure segment share in cement demand from the current 20–22%.

Strong order book in infrastructure space to bolster demand

Construction companies: Order book to sales ratio



Source: RHH

…but elections and weak macroeconomics to affect short-term order inflows

India is expected to have general elections in April '09. This could result in lower order inflows as electoral rules do not permit the government to award new contracts for infrastructure and other projects during the poll period.

Upcoming elections and India's rising fiscal deficit could hinder project investment

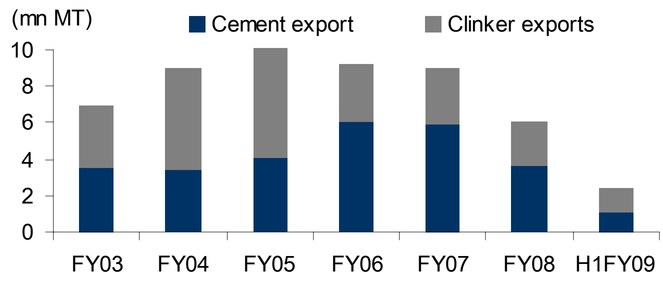
On the macro front, India's fiscal deficit remains a concern. The deficit was brought down to 2.8% of GDP in FY08 from 3.8% in FY07. The government has a target of containing the deficit at 2.5% (Rs 1,333bn) by FY09. However, with current inflationary pressures, the farm loan waiver and increased pay scales of government employees as per the sixth pay commission, India's fiscal deficit is likely to increase. According to data released by the Controller General of Accounts, the deficit for April-July stood at Rs 1,159bn, which is already 87% of the annual target for FY09. We believe this could put a strain on government finances and hinder investment towards infrastructure projects in the near term.

Exports on the decline

Cement exports have declined from 10mn tonnes (mn MT) in FY05 to 6mn MT in FY08, mainly on account of higher realisations in the domestic market. Most of our exports are to the Middle East. However, large capacities are expected to come up in this region by FY10 which will result in lower exports for India. Our interaction with the management of various companies suggests increased competition from Chinese exports in the short term as freight rates have reduced considerably. The recent slump in the Middle East real estate market is a further dampener for cement exporters. Accordingly, we have assumed a flat growth in exports over the next two years.

Trend in exports

Rising capacities in the Middle East and competition from China to suppress exports



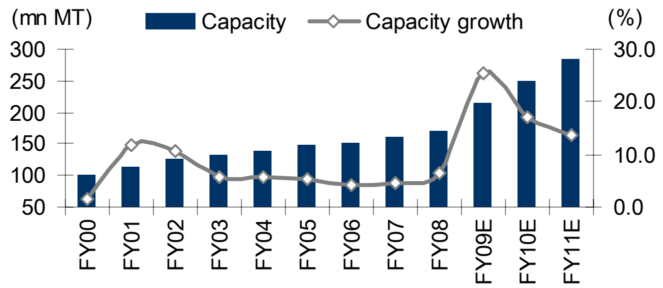
Source: RHH, CMA

Oversupply situation inevitable

Cement capacity in the country has increased at a CAGR of 6.7% over the last eight years. The slow ramp-up was mainly on account of limited balance sheet strength as the sector witnessed a downturn. However, with increased demand from the real estate and infrastructure segments over FY05-FY08, capacity utilisation of cement manufacturers has improved and is currently at peak levels. Strong demand growth has resulted in a bunching of planned capacities, however, with most companies announcing robust expansion plans over the next three years. Supply is thus expected to increase at a CAGR of 18.7% in the next three years as compared to a demand growth of 7.7%.

Cement capacity additions in India

Supply to increase at 18.7% CAGR in the next three years as compared to demand growth of 7.7%



Source: RHH, Company, Equipment supplier websites

Supply to exceed demand over the next two years

At the end of H1FY09, the installed cement capacity across India stood at 183.3mn MT (177.2mn MT excluding defunct capacities), augmented via debottlenecking, new grinding units and the execution of brownfield and greenfield expansion projects. Based on the announced capex programmes, we expect a situation of oversupply to set in over the next two years.

Current pan-India cement capacity at 183.3mn MT

We have considered capacity additions for those companies which have placed orders for equipment supplies, started land acquisition or initiated the limestone mine clearance process. Projects which have not seen financial closure are excluded from our projections since these are likely to be shelved altogether in view of the worsening macro environment.

Our estimates incorporate a 3–6 month time lag from the announced date of the project. There could be additional delays in terms of clearances related to limestone mining, environmental approvals and land acquisition (for greenfield capacities). Further, the paucity of skilled manpower and non-delivery of equipment in a timely manner are other risks to our estimates. However, even if the additions are 20% below our current estimates, we believe ~85–88mn MT of capacity will be added over FY09-FY11.

Our estimates suggest that oversupply would hit the cement sector from Q3FY09 onwards

Quarterly capacity additions across India

(mn MT)	North	South	East	West	Central	Total
Q1FY09	-	3.9	0.9	-	-	
Q2FY09	-	2.8	-	-	-	
Q3FY09	4.7	7.0	-	-	0.5	
Q4FY09	2.4	10.7	3.2	2.5	3.4	
Sub total	**7.1**	**24.4**	**4.1**	**2.5**	**3.9**	**41.9**
Q1FY10	5.3	3.2	5.0	1.2	1.1	
Q2FY10	1.3	10.2	-	-	-	
Q3FY10	2.9	-	-	4.0	-	
Q4FY10	-	-	2.1	-	-	
Sub total	**9.5**	**13.4**	**7.0**	**5.1**	**1.1**	**36.2**
Q1FY11	1.9	1.7	-	-	2.1	
Q2FY11	1.9	-	-	2.8	-	
Q3FY11	-	6.9	-	7.0	-	
Q4FY11	1.9	2.0	-	-	5.9	
Sub total	**5.8**	**10.6**	**-**	**9.7**	**8.0**	**34.2**
Total	**22.4**	**48.4**	**11.1**	**17.3**	**13.0**	**112.2**

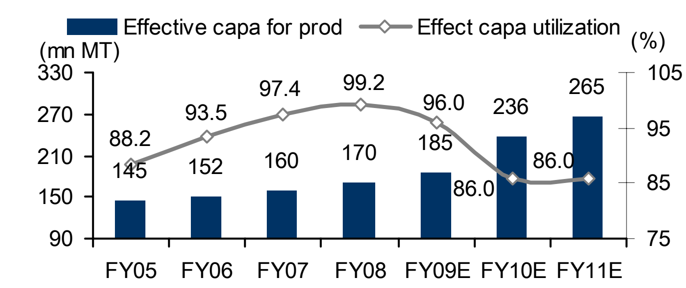
Source: RHH, Company, Equipment supplier websites

Oversupply to lower utilisation, putting pressure on pricing

Capacity utilisation rates to decline

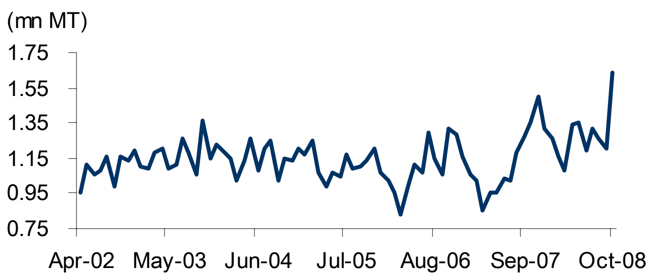
An excess of supply vis-à-vis demand is likely to shrink utilisation levels on actual capacities from 99% in FY08 to 86% in both FY10 and FY11. This will put pressure on realisations. Further, an increased inventory build-up could result in voluntary production cuts, further depressing capacity utilisation.

Capacity utilisation



Source: RHH, Company, Equipment supplier websites

Trend of industry-wide inventory build-up



Source: RHH, CMA

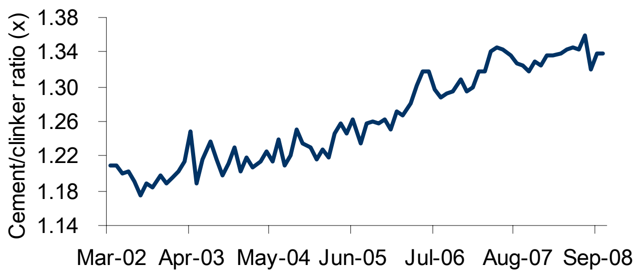
Blending peaked out

Blending ratio already high at 1.34x; also fly ash losing its cost benefit

Blending of cement in the country has increased from 1.20x to 1.33x over FY03-FY08. The blending ratio for FY09 is at 1.34x YTD, leaving little headroom for a further increase. Moreover, the price of fly ash has risen due to freight costs incurred to move this raw material from power units to cement plants (earlier the burden was borne by power producers). This reduces the advantages associated with mixing it with cement.

As the cement industry moves towards a capacity surge in FY09-FY11, companies would find it advantageous to move from production of PPC to OPC so as to better utilise their clinker capacity. However, this move would need to be weighed against higher power and fuel expenses needed for the switch.

Blending trend over FY02-H1FY09



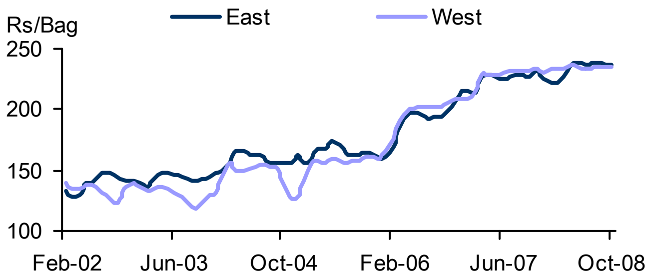
Source: RHH, CMA

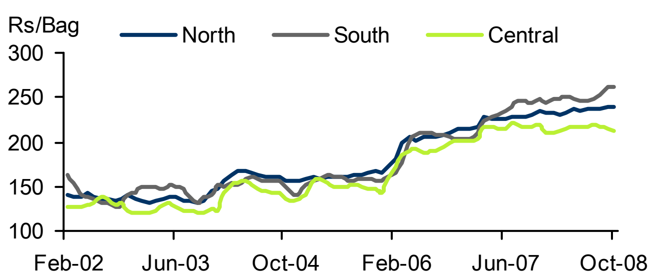
Realisations and margins under pressure

Prices subdued in the last one year due to government intervention

Over the last one year, the pricing scenario has been bleak mainly on account of increased government intervention on commodity pricing to quell inflation. Government measures such as the removal of import duty and change in excise duty structure gave cement manufacturers little option but to freeze cement prices. The southern region was the only area which was insulated, witnessing an improvement in price on the back of above-average demand.

Cement price movement across regions





Source: RHH, CM

Government intervention

Date	Particulars	Impact
Jan 22, 2007	Import duty on cement cut to zero from 12.5%	Negative
Feb 28, 2007	Introduction of dual excise duty	Negative
Mar 9, 2007	Cement industry agrees to a one-year price freeze	Negative
Apr 3, 2007	FM exempts domestic levies on imported cement	Negative
May 3, 2007	Introduction of ad-valorem excise duty	Negative
Aug 12, 2007	Liberalisation of imports from Pakistan	Negative
Feb 29, 2008	Excise duty on clinker increased from Rs 350–450/tonne; Excise duty on bulk cement revised from Rs 400/ tonne to 14% of sales or Rs 400/ tonne, whichever is higher	Negative
Mar 29, 2008	Duty Entitlement Passbook scheme benefits for cement withdrawn by government	Negative
Apr 11, 2008	Cement export banned by the central government	Negative
May 10, 2008	Cement industry agrees to a 2–3 month price freeze	Negative
May 21, 2008	Cement clinker export to Nepal lifted	Positive
May 27, 2008	Cement & clinker export from ports of Gujarat permitted	Positive
Dec 7, 2008	Cenvat duty cut of 4% announced by the government	Positive

Source: RHH, Newspapers

Prices to fall post-FY09 when fresh capacities ramp up

Capacity build-up to push down prices in the medium term

With weaker demand owing to the current slowdown in realty and a higher capacity build-up (implying lower utilisation), cement players will witness continued pressure on realisations in the medium term. Accordingly, we have assumed a drop in realisations to the extent of 4-6% in FY10 and FY11 for all companies under our coverage. We believe that newer capacities will take time to ramp up production and hence prices will start to fall only after FY09.

Rising coal cost and shrinking linkages inflated operating cost

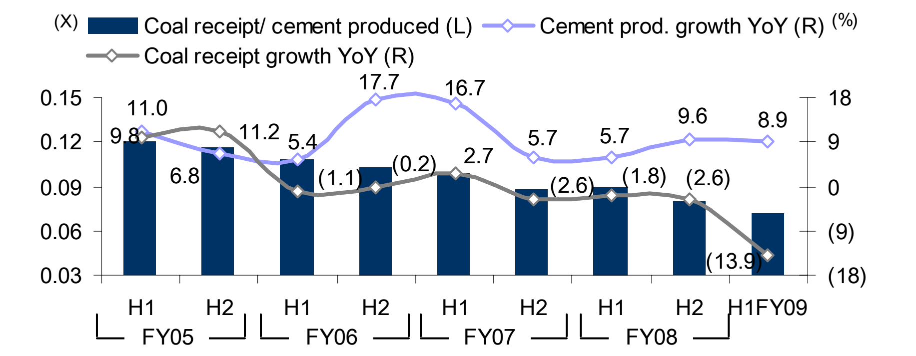
The cement industry has been facing a two-pronged problem over the past year. Cement prices have remained nearly flat across the country except for the southern region where strong demand has driven a significant price increase. On the other hand, input cost for cement production has been rising, leading to a squeeze in operating profits. Power & coal is the principal cost accounting for 20–25% of the total cost of production.

Shrinking availability of coal via linkages: Most cement companies have long-term coal supply contracts for use in kilns and captive power generation. The coal industry has historically allocated ~5% of its total produce to the cement sector. However, the government thrust on the power sector, which consumes ~80% of the total coal produced, together with inadequate coal supply has led to a shrinking share for cement companies.

Reliance on expensive e-auctioned and imported coal rising

Until FY07, cement producers were meeting ~70% of their coal requirements from linkages. However, this proportion has shrunk to ~50%-55% over the time, thus increasing the dependency on e-auctioned coal (sold at a premium of ~30-70% to coal available through linkages) and imported coal (from Indonesia, South Africa and Australia). Coal receipts from CIL and SCCL per tonne of cement produced have come down from 0.12 in H1FY05 to 0.07 in H1FY09. Going forward, we expect the availability of linked coal to remain under pressure, raising dependency on the more expensive e-auctioned and imported coal.

Trend of coal linkage against cement production



Source: RHH, CMA

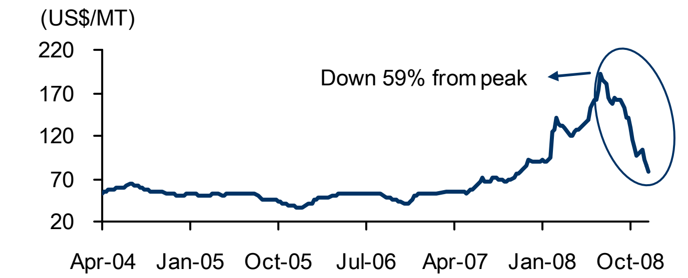
Imported coal prices have cooled off by 50–60% from their peaks

Fall in price of imported coal to marginally benefit certain companies: Imported coal prices reached an all-time high in July '08, exacerbating the input cost woes of cement companies. However, the cool-off in crude price has had a cascading effect on coal prices the world over. Australian coal has fallen 59% to US$ 79/MT (as against its peak of US$ 193), whereas South African coal has slid 56% to US$ 76 (from its peak of US$ 172). This is bound to benefit companies like India Cements, Ambuja Cement and UltraTech which rely on imported coal.

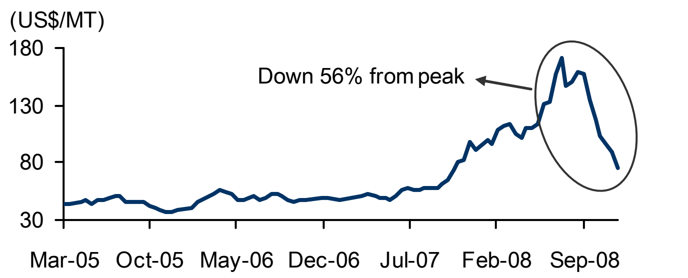
The benefits of falling imported coal prices have been partially offset by rupee depreciation against the dollar over the past three months (exchange rate of Rs 43/US$ to Rs 50, signifying 17% rupee depreciation). After considering a weaker rupee, the real drop in Australian coal from its peak equates to ~53% whereas South

African coal has fallen ~48% from its peak. Although coal prices have come off their highs, the benefit to cement companies will be lower than the charts shown below as most of their coal contracts would have been sealed at lower levels and not necessarily at the peak coal price.

Australian coal price



South African coal price



Source: Bloomberg, RHH

Australian coal matrix

Particulars	Peak (4-Jul-08)	Now (28-Nov-08)	% Change
Exchange rate (Rs/US$)	43.2	50.1	16.1
Australian coal (US$/MT)	192.5	78.6	(59.2)
Total coal cost (Rs/MT)	83,07	3,938	(52.6)

Source: RHH, Bloomberg

South African coal matrix

Particulars	Peak (11-Jul-08)	Now (28-Nov-08)	% Change
Exchange rate (Rs/US$)	42.9	50.1	16.9
S. African coal (US$/MT)	172.0	76.0	(55.8)
Total coal cost (Rs/MT)	7,374	3,808	(48.4)

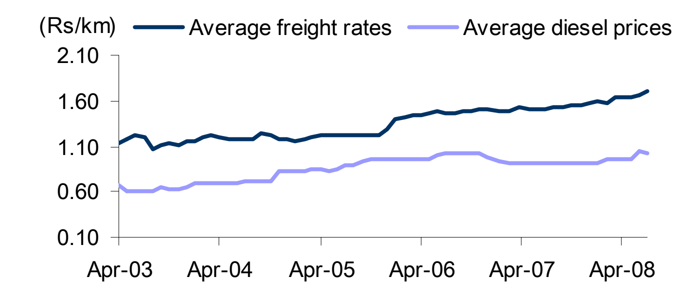
Source: RHH, Bloomberg

Geographical expansion would increase the lead distance to market

Lower fuel cost to be partly offset by increase in lead distance

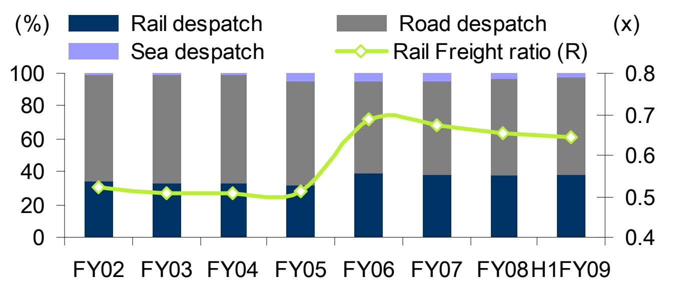
Freight and transportation accounts for 25–30% of the operating cost for cement companies, which is again indirectly related to fuel costs. While the proportion of cement freight movement by road is on the decline, roads will continue to be a preferred mode of transport going forward. We believe the decline in crude oil prices could result in lower diesel and petrol prices and hence reduce freight cost. However, with the expected increase in capacity there is a high probability that the average lead distance to market could increase, as companies move into other regions to market their product. This will mitigate the benefit from reduced fuel prices to some extent.

Average freight and diesel prices



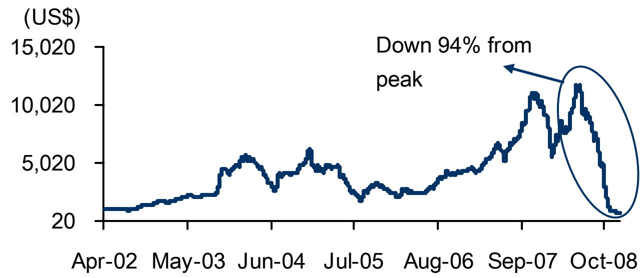
Source: Crisil Research, RHH

Rail and road freight ratio



Source: RHH, CMA

Baltic dry index



Source: Bloomberg

EBITDA margin of our cement universe to decline to 27% in FY09 and 25% in FY10

Operating cost to decline but falling realisations would strain margins

Over the past year, higher fuel and power costs coupled with the inability of cement manufacturers to pass on the increase has resulted in margin compression across the board for cement companies. However, most players are augmenting their captive power plant capacity over the next two years. This along with a sharp correction in imported coal prices in recent months is expected to bring some relief on the cost front in the short to medium term (though capped by rupee depreciation).

We believe margins would decline in the medium term mainly on account of the drop in realisations. For our coverage universe, we expect the EBITDA margin to contract 430bps in FY09 and 200bps in FY10 to 27.4% and 25.4% respectively.

Sensitivity analysis to price and volume decline

Amidst slowing economic growth and the commissioning of large cement capacities in the coming quarters, we have carried out a two-pronged sensitivity analysis. In the first instance, we look at the effects of a 5% cut in our estimated price realisation for companies from the RHH cement universe. In the second case, we analyse the outcome of the economic slowdown in terms of a 5% decline in cement volume sales.

Price sensitivity: Mangalam, JK Lakshmi and ACC most vulnerable

A 5% drop in price realisation from our expectations for both FY10 and FY11 would result in maximum margin contraction for Mangalam Cement, followed by JK Lakshmi Cement and ACC. Mangalam Cement's topline is expected to grow at a subdued CAGR of 3.3% over FY08-FY11 on account of the declining price realisation. At the same time, its raw material and packaging & selling expenses are set to increase at a faster pace, leading to an acute squeeze on operating margins. Orient Paper and Grasim would take the least hit due to their diversified business models and better cost management.

Grasim and Orient Paper least sensitive to price decline due to diversified businesses

Price sensitivity of cement companies

Company	EBITDA margin (%)				Change in margins (bps)	
	Base		5% price drop			
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
ACC	21.6	19.8	17.5	15.6	(410.0)	(422.0)
Ambuja Cements	25.9	22.0	22.0	17.8	(390.0)	(411.0)
Birla Corporation	21.2	18.7	17.4	14.7	(385.0)	(397.0)
Grasim	27.5	25.5	24.9	22.7	(266.0)	(276.0)
India Cements	27.4	23.9	23.6	19.9	(378.0)	(397.0)
Shree Cement	30.0	28.4	26.3	24.7	(368.0)	(377.0)
UltraTech	25.7	23.2	22.0	19.3	(373.0)	(386.0)
JK Lakshmi Cement	21.4	18.8	16.6	14.0	(472.0)	(483.0)
Mangalam Cement	22.8	18.9	18.0	13.9	(476.0)	(499.0)
Orient Paper	24.4	23.5	21.9	21.1	(243.0)	(242.0)

Source: RHH

In terms of the impact of lower realisations on EPS, JK Lakshmi Cement, Mangalam Cement and ACC would witness the highest declines of 48.3%, 30.3% and 34.7% in FY10E earnings respectively. Both JK Lakshmi and India Cements' EPS decline would be more severe than shown here, as they would require to raise debt of Rs 1.5bn–1.7bn in order to maintain a healthy cash balance, thus resulting in higher interest cost. Orient Paper and Grasim will witness the least reduction in EPS.

Earnings of JK Lakshmi and India Cements are at highest risk to falling prices

EPS sensitivity to lower prices

Company	EPS (Rs)				Change in EPS (%)	
	Base		5% price drop			
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
ACC	52.0	44.7	36.3	27.9	(30.3)	(37.4)
Ambuja Cements	6.0	5.1	4.6	3.5	(24.4)	(31.6)
Birla Corporation	39.7	34.6	30.3	24.4	(23.6)	(29.5)
Grasim	199.7	189.1	170.2	157.2	(14.8)	(16.9)
India Cements	19.1	15.9	14.3	10.7	(25.1)	(32.9)
Shree Cement	103.9	93.6	77.2	64.5	(25.6)	(31.0)
UltraTech	63.2	56.1	46.6	38.4	(26.3)	(31.6)
JK Lakshmi Cement	22.2	16.5	11.5	6.0	(48.3)	(63.8)
Mangalam Cement	25.2	20.3	16.5	11.0	(34.7)	(45.6)
Orient Paper	12.8	13.2	10.8	11.1	(15.2)	(16.2)

Source: RHH

Volume sensitivity: Birla Corp hardest hit

On reducing our volume growth estimate by 5% for our cement universe, we find that Birla Corp would be the hardest hit on the EBITDA margin front. This is attributed to the company's high proportion of fixed operating expenses, which keep costs high irrespective of volumes. About 31% of Birla Corp's operating expenses are fixed in nature, the highest among the RHH cement universe.

For ACC, Grasim and Orient Paper, 20% of operating expenses are fixed, resulting in a lower margin drop than other cement companies. Shree Cement and UltraTech would be better placed in terms of operating margins as against other players in the RHH cement universe.

31% of Birla Corp's expenses are fixed in nature, putting margins at risk in case of falling volumes

Volume sensitivity of cement companies

Company	EBITDA margin (%)				Change in margins (bps)	
	Base		5% vol. drop			
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
ACC	21.6	19.8	20.6	18.9	(92.0)	(90.0)
Ambuja Cements	25.9	22.0	25.2	21.2	(68.0)	(71.0)
Birla Corporation	21.2	18.7	19.9	17.4	(134.0)	(133.0)
Grasim	27.5	25.5	26.7	24.7	(82.0)	(83.0)
India Cements	27.4	23.9	26.6	23.1	(75.0)	(77.0)
Shree Cement	30.0	28.4	29.9	28.3	(13.0)	(13.0)
UltraTech	25.7	23.2	25.2	22.8	(46.0)	(36.0)
JK Lakshmi Cement	21.4	18.8	20.7	18.2	(64.0)	(62.0)
Mangalam Cement	22.8	18.9	22.1	18.2	(65.0)	(65.0)
Orient Paper	24.4	23.5	23.4	22.5	(102.0)	(99.0)

Source: RHH

As regards EPS reduction owing to lower volume sales, JK Lakshmi Cement would take the hardest hit of 13.7% in FY10 and 17.6% in FY11. ACC and Birla Corp would also be significantly affected. However, Grasim, UltraTech and Orient Paper would be relatively better placed.

EPS sensitivity to lower volume sales

Company	EPS (Rs)				Change in EPS (%)	
	Base		5% vol. drop			
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
ACC	52.0	44.7	45.9	38.5	(11.8)	(13.8)
Ambuja Cements	6.0	5.1	5.5	4.5	(9.5)	(11.3)
Birla Corporation	39.7	34.6	35.2	29.9	(11.4)	(13.4)
Grasim	199.7	189.1	185.1	174.0	(7.3)	(8.0)
India Cements	19.1	15.9	17.1	13.9	(10.5)	(12.6)
Shree Cement	103.9	93.6	95.3	84.7	(8.3)	(9.5)
UltraTech	63.2	56.1	58.0	51.4	(8.3)	(8.4)
JK Lakshmi Cement	22.2	16.5	19.2	13.6	(13.7)	(17.6)
Mangalam Cement	25.2	20.3	22.6	17.9	(10.2)	(12.0)
Orient Paper	12.8	13.2	11.7	12.0	(8.5)	(8.8)

Source: RHH

Grasim and Orient Paper most resilient to declining prices and volumes

Fall in cement prices poses a greater risk

On the whole, we can infer that companies in our cement universe are more sensitive to a fall in cement prices than a volume decline. Our sensitivity analysis suggests the least downside for Grasim, UltraTech and Orient Paper, while JK Lakshmi, ACC and Mangalam are at risk. JK Lakshmi is susceptible to both a fall in price and volume sales, while Mangalam is more vulnerable to a price drop and ACC is at a higher risk in the event of a volume decline. On the contrary, Grasim and Orient Paper would be less exposed to either factor due to their diversified lines of business.

Regional demand-supply outlook

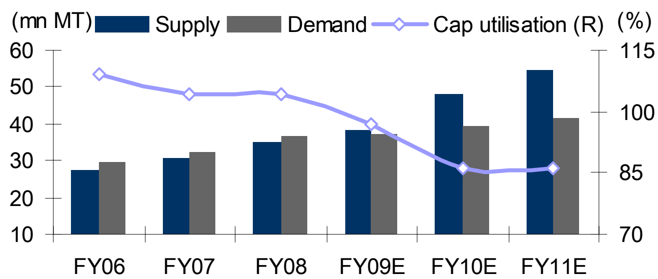
Northern region: Demand to decelerate – little scope to offload surplus

The northern region is expected to witness capacity additions of 20% in FY09, 23% in FY10 and 11% in FY11, leading to an actual capacity of 57.4mn MT by FY11. With the impending slowdown in construction and infrastructure activity across the country, cement consumption would grow at a muted CAGR of 4.8% over FY08-FY11. Thus, we expect utilisation to drop from 104% in FY08 to 97% in FY09 and 86% in FY10.

Commissioning of capacities in the central region would hamper movement of surplus from the north

The lag in timely capacity additions would keep the demand-supply scenario favourable and lead to a deficit of 0.5mn MT for FY09. However, the overhang of excess supply will affect the region severely in FY10 and FY11, creating a surplus of 2.4mn MT and 5.7mn MT respectively. The demand-supply conditions would be a serious concern in FY10-FY11 as capacity additions in the central region become operational, thus hampering the movement of surplus out of the northern region.

Demand-supply in North India



Source: RHH, Equipment suppliers, Company

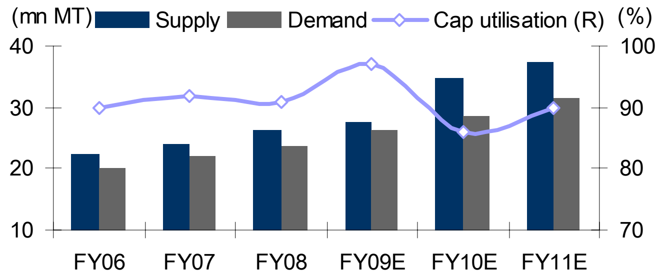
High blending ratio in the east could be pruned to employ surplus capacity

Eastern region: Inflows from other regions to aggravate surplus

The eastern region is expected to add cement capacity at a CAGR of 12.5% over FY08-FY11 to 37.3mn MT. The region's consumption pattern would remain more buoyant, clocking a 10.1% CAGR over FY08-FY11. A large chunk of capacity additions in FY09 are expected only in the last quarter, leading to lower capacity for production during the fiscal. This would result in a spike in effective utilisation from 91% in FY08 to 97%.

In contrast, considerable capacity would become available for production in Q1FY10, causing effective utilisation to dip to 86%. Further, the inflow of cement from other regions would result in a surplus of 3–6% of the actual capacity over FY08-FY11. However, the high blending ratio of 1.4–1.5x prevalent in the east could be reduced in order to gainfully employ the surplus capacity.

Demand-supply in East India



Source: RHH, Equipment suppliers, Company

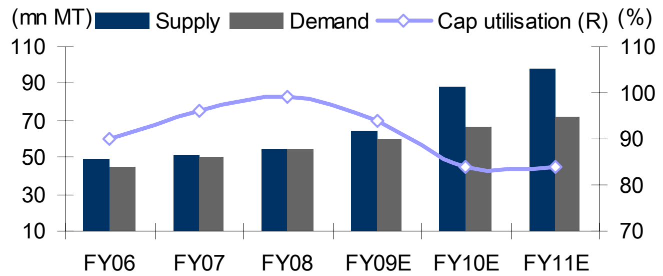
Southern region: Aggressive capacity build-up poses a concern

The southern region is expected to come up with the highest cement capacity addition of 48.7mn MT, reflecting a CAGR of 23.6% over FY08-FY11. Utilisation would remain high in FY09 as three-fourths of the added capacity would come up only towards the end of the year. However, the ambitious expansion plans would depress effective utilisation for the region from 94% to 84% over FY09-FY11.

South to have the highest cement capacity addition by FY11

Cement consumption would remain strong with a 10–12% CAGR and outflow to neighbouring states would continue. Nonetheless, the surplus would hover at 9–11mn MT during FY09-FY11 and a tenth of the installed capacities would remain idle. The southern region has an average blending ratio of ~1.3x. A decrease in blending would only alleviate idle capacity marginally, resulting in serious capacity build-up concerns.

Demand-supply in South India



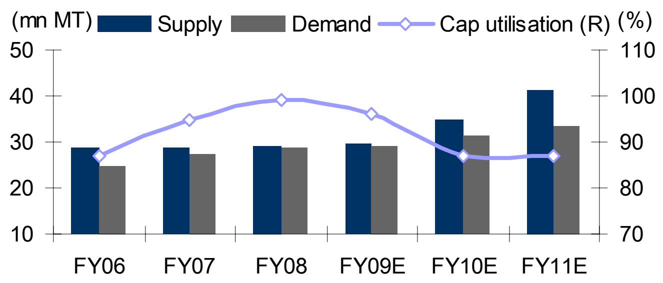
Source: RHH, Equipment suppliers, Company

Consumption slowdown in the western region but oversupply to set in only in FY11

Western region: Relatively better off – excess capacity only in FY11

Capacities in the western region will increase from 29.1mn MT in FY08 to 46.5mn MT in FY11, marking a CAGR of 16.8%. The effective utilisation would reduce from 99% in FY08 to 96% in FY09 and further to 87% in FY10 and FY11. Cement consumption is expected to log a CAGR of 6.4% over FY08-FY11. This would result in a near equilibrium demand-supply situation in FY09 and a deficit of 1.3mn MT in FY10 despite the consumption slowdown. Excess capacity would hit the region only in FY11 creating a surplus of 5% of the total capacity.

Demand-supply in West India



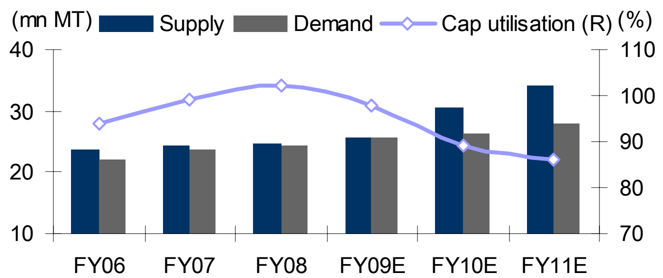
Source: RHH, Equipment suppliers, Company

Excess capacity of 3-4% over FY09-FY11 in central region

Central region: Slowing consumption a concern

The central region is expected to add fresh capacity at a CAGR of 16.5% to 38.8mn MT in FY11. However, consumption would continue to log a poor CAGR of 4.5% over FY08-FY11. This would result in effective utilisation cooling off from 98% in FY09 to 86% in FY11. The region would see a deficit of 1% capacity in FY09 but a surplus capacity of ~3-4% over FY10 and FY11.

Demand-supply in Central India



Source: RHH, Equipment suppliers, Company

All-India: Glut in cement supply

Cement capacity across India is poised to increase at a CAGR of 18.7% over FY08-FY11 to 283.3mn MT. Owing to the economic slowdown, we expect cement consumption to clock a CAGR of 7.7% over FY08-FY11. The demand-supply scenario would remain tight in FY09 with a slight deficit.

Expect idle capacities of 5% in FY10 and 8% in FY11 across India

However, with strong expansion plans between FY09-FY11 and a scale up in production, the surplus capacity would rise to 12.5mn MT in FY10 and 22.3mn MT in FY11. This would result in idle capacity of 5% and 8% respectively, of which most could be attributed to the northern and southern regions.

Inter-regional movement of cement

Inter-regional movement of cement

2008-09 (Apr-Sep)						
Regions (mn MT)	North	East	South	West	Central	Total
North	14.5	0.0	0.0	1.6	2.8	18.8
%	*76.9*	*0.0*	*0.0*	*8.2*	*14.8*	
East	0.1	11.6	0.0	0.0	0.2	12.0
%	*1.1*	*96.9*	*0.3*	*0.4*	*1.5*	
South	0.0	0.2	26.4	3.2	0.0	29.7
%	*0.0*	*0.5*	*88.8*	*10.7*	*0.0*	
West	0.0	0.0	0.7	11.4	0.3	12.4
%	*0.3*	*0.1*	*5.5*	*91.9*	*2.3*	
Central	1.6	1.5	0.0	0.1	8.7	11.9
%	*13.4*	*12.5*	*0.1*	*0.6*	*73.3*	
Total	16.2	13.2	27.1	16.2	12.0	84.7

2007-08 (Apr-Mar)						
Regions (mn MT)	North	East	South	West	Central	Total
North	29.3	0.0	0.0	2.5	4.6	36.5
%	*80.4*	*0.0*	*0.0*	*6.9*	*12.6*	
East	0.2	22.8	0.0	0.2	0.6	23.8
%	*1.0*	*95.8*	*0.1*	*0.7*	*2.4*	
South	0.0	0.4	47.9	5.8	0.0	54.1
%	*0.0*	*0.7*	*88.5*	*10.7*	*0.1*	
West	0.0	0.1	1.2	23.7	0.4	25.4
%	*0.1*	*0.2*	*4.8*	*93.2*	*1.7*	
Central	4.0	2.1	0.0	0.1	18.1	24.2
%	*16.3*	*8.6*	*0.0*	*0.3*	*74.8*	
Total	33.5	25.3	49.2	32.2	23.8	164.0

Source: RHH Research, CMA

Northern region

Increasing supply to the central region by plants in the north

In FY08, 12.6% of cement produced in the north was disbursed to the central region with 6.9% marketed to the western region. In order to accommodate the additional capacity commissioned in H1FY09 along with favourable cement prices in the west, the north increased its despatch to 8.2% in the west and 14.8% in the centre over April-September' 08, leaving less cement for local consumption. The capacity overhang will continue despite the movement of cement to the central and western markets, which will remain in deficit until FY10 and FY11 respectively. Further, capacity expansion in these regions could lead to a price cut for northern players.

Eastern region

Cement produced in the east was mostly consumed locally in FY08 owing to the lack of excess capacity. The marginal movement of cement that did take place during the year was to the central region at 2.4% of total production, while other regions comprised a mere 1.8%. Owing to the tighter demand-supply dynamics in the region, the despatch of cement to the centre has reduced to 1.5% over April-September '08, while other regions accounted for 1.8%. The east will be able to cater to the needs of the central region in FY09 but may face the risk of a supply overhang as the centre becomes a surplus region in FY09-FY11.

Southern region

The south supplied 10.7% of its produce to the west in FY08 owing to the Gulbarga cluster's proximity to Maharashtra. The movement of cement has remained stable at 10.7% over April-September '08. Since the west is expected to remain cement deficit until FY10, supply from the south may not be in jeopardy. Despite this, new capacities in the south will need to compete with the eastern and central regions in order to keep the surplus to the minimum. Thus, a price cut in FY10 looks probable for the region.

Western region

The western region routed 4.8% and 1.7% of its produce to the southern and central regions in FY08. This was marginally increased to 5.5% and 2.3% respectively during April-September '08. Even though the west is expected to have a capacity deficit over FY08-FY10, it will face stiff competition from the surplus southern region. Thus, a price revision for the west may be dependent on a correction in cement prices in the south.

Central region

The central region despatched ~25% of its cement produce to the northern (16.3%) and eastern regions (8.6%) in FY08. With fresh capacities added in the north, the movement of produced cement has reduced to 13.2%, while increasing to 13.4% in the east during April-September ’08. Since surplus capacity in the central region is not expected before FY10, inflows of cement will continue from the north. However, with new capacities commissioned over FY09-FY11, pricing in the central region will also become more susceptible to the movement of cement.

Recommend selective stock buying

Long-term value picks: Grasim, UltraTech, Shree Cement and Orient Paper

Despite the structural downturn in the sector, we believe that select companies are at attractive valuations and represent long-term value picks, given their completed capacity expansion plans and lower risk to cash flows and earnings. These companies could benefit in the event of delayed capacity additions by competitors whose expansion plans are set to materialise at later dates. We prefer Grasim in the large-cap space, UltraTech and Shree Cement in the mid-cap space and Orient Paper among the small-caps.

We would avoid stocks like Ambuja, ACC, JK Lakshmi and Mangalam as the downside risk to their earnings is significantly higher. A lower-than-anticipated decline in realisations, higher demand growth and significantly lower capacity additions are key risks to our estimates.

COMPANIES

ACC

Pricing and volumes under pressure

Revenue growth to remain subdued: ACC's expanded capacities are likely to come up only at the end of CY09 and CY10, keeping volume growth muted. Further, the large capacity additions in North and South India would hamper the company's realisations due to its strong exposure to the two regions. We expect net realisations to drop by 4% in both CY09 and CY10, leading to a subdued net sales CAGR of 2.5% over CY08-CY10.

Cash flows constrained; interest burden adds to concerns: Most of the company's capex is back-ended in nature, i.e., arising only in CY09 and CY10. Therefore, any decline in prices and demand could worsen the cash flow situation going forward. In addition, ACC has raised debt to the tune of Rs 2bn at an interest rate of 11% for a period of five years. This is expected to increase interest cost and compress profitability.

Earnings to decline further over CY08-CY10: With the current economic slowdown and a weak sector outlook (stemming from lower real estate demand and excess capacities), we have pared down our earnings estimates for the company. We expect EPS to decline to Rs 52 in CY09 and Rs 44.7 in CY10.

Target multiple reduced; downgrade to Sell: Considering the anticipated fall in realisations and earnings, we are lowering our target P/E multiple for the stock from 10x to 9.5x its two-year forward earnings of Rs 45.3. This gives us a revised target price of Rs 430 from Rs 512 previously; we downgrade our rating from Accumulate to Sell. On an EV/EBITDA basis, the company is valued at 4.5x its two-year forward financials.

Revised estimates

Key parameters	CY09E Old	CY09E New	CY09E % Chg
Cement volumes (mn MT)	22.0	21.5	(2.2)
Net sales	80,391	78,789	(2.0)
EBITDA	18,163	16,980	(6.5)
EBITDA margin (%)	22.6	21.6	(104bps)
Adj PAT	10,571	9,772	(7.6)
Adj EPS (Rs)	56.3	52.0	(7.6)

Source: RHH

Company Update

16 December 2008

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 514	Rs 430	SELL	HIGH

BSE	NSE	BLOOMBERG
500410	ACC	ACC IN

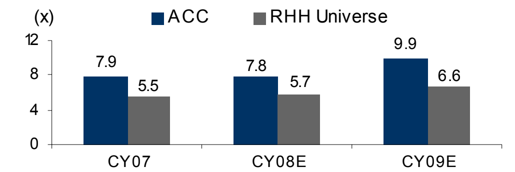
Company data

Market cap (Rs mn / US$ mn)	96,518 / 2,009
Outstanding equity shares (mn)	187.8
Free float (%)	53.5
Dividend yield (%)	3.9
52-week high/low (Rs)	1,130 / 365
2-month average daily volume	492,836

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
ACC	514	23.7	(13.9)	(19.1)
Sensex	9,832	4.8	(27.3)	(35.3)

P/E comparison



Valuation matrix

(x)	CY07	CY08	CY09E	CY10E
P/E @ CMP	7.9	7.8	9.9	11.5
P/E @ Target	6.6	6.6	8.3	9.6
EV/EBITDA @ CMP	5.1	4.9	5.7	6.0

Financial highlights

(Rs mn)	CY07	CY08E	CY09E	CY10E
Revenue	70,072	77,960	78,789	81,845
Growth (%)	*20.7*	*11.3*	*1.1*	*3.9*
Adj net income	12,284	12,321	9,772	8,387
Growth (%)	*9.7*	*0.3*	*(20.7)*	*(14.2)*
FDEPS (Rs)	65.4	65.6	52.0	44.7
Growth (%)	*9.2*	*0.2*	*(20.7)*	*(14.2)*

Profitability and Return ratios

(%)	CY07	CY08E	CY09E	CY10E
EBITDA margin	27.4	25.3	21.6	19.8
EBIT margin	23.0	21.0	16.3	13.8
Adj PAT margin	17.5	15.8	12.4	10.2
ROE	33.7	27.1	18.7	14.8
ROIC	31.2	28.1	19.2	14.5
ROCE	30.6	25.9	18.2	14.2

Consolidated financials

Profit and Loss statement

Y/E Dec (Rs mn)	CY07	CY08E	CY09E	CY10E
Revenues	**70,072**	**77,960**	**78,789**	**81,845**
Growth (%)	*20.7*	*11.3*	*1.1*	*3.9*
EBITDA	**19,174**	**19,710**	**16,980**	**16,243**
Growth (%)	*18.1*	*2.8*	*(13.8)*	*(4.3)*
Depreciation & amortisation	3,051	3,318	4,126	4,916
EBIT	16,123	16,392	12,855	11,327
Growth (%)	*17.8*	*1.7*	*(21.6)*	*(11.9)*
Interest	739	147	305	303
Other income	1,787	1,067	1,152	944
EBT	17,172	17,312	13,701	11,968
Income taxes	5,121	4,991	3,930	3,581
Effective tax rate (%)	*29.8*	*28.8*	*28.7*	*29.9*
Extraordinary items	2,335	-	-	-
Min int / inc from associates	-	-	-	-
Reported net income	14,386	12,321	9,772	8,387
Adjustments	2,102	-	-	-
Adjusted net income	**12,284**	**12,321**	**9,772**	**8,387**
Growth (%)	*9.7*	*0.3*	*(20.7)*	*(14.2)*
Shares outstanding (mn)	187.7	187.8	187.8	187.8
FDEPS (Rs) (adj)	**65.4**	**65.6**	**52.0**	**44.7**
Growth (%)	*9.2*	*0.2*	*(20.7)*	*(14.2)*
DPS (Rs)	20.0	20.0	20.0	20.0

Balance sheet

Y/E Dec (Rs mn)	CY07	CY08E	CY09E	CY10E
Cash and cash eq	7,435	1,439	3,559	3,368
Accounts receivable	2,893	3,204	3,238	3,364
Inventories	7,309	7,979	8,467	8,987
Other current assets	4,394	4,394	4,394	4,394
Investments	8,448	13,448	13,448	8,448
Gross fixed assets	54,641	66,003	77,503	93,503
Net fixed assets	33,147	41,191	48,566	59,649
CWIP	6,492	4,500	2,000	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(3,315)	(3,465)	(3,615)	(3,765)
Other assets	-	-	-	-
Total assets	**66,803**	**72,691**	**80,057**	**84,445**
Accounts payable	12,075	11,747	11,872	12,333
Other current liabilities	1,847	1,847	1,847	1,847
Provisions	6,663	6,173	6,067	6,032
Debt funds	3,064	1,844	3,814	3,784
Other liabilities	1,627	1,627	1,627	1,627
Equity capital	1,878	1,878	1,878	1,878
Reserves & surplus	39,649	47,574	52,951	56,943
Shareholder's funds	41,527	49,453	54,829	58,821
Total liabilities	**66,803**	**72,691**	**80,057**	**84,445**
BVPS (Rs)	221.3	263.3	292.0	313.2

Cash flow statement

Y/E Dec (Rs mn)	CY07	CY08E	CY09E	CY10E
Net income+Depreciation	16,928	15,638	13,897	13,303
Non-cash adjustments	2,021	(2,539)	44	115
Changes in working capital	1,134	(1,309)	(397)	(185)
Cash flow from operations	20,083	11,790	13,545	13,234
Capital expenditure	(6,213)	(9,370)	(9,000)	(14,000)
Change in investments	(2,921)	(5,000)	-	5,000
Other investing cashflow	-	-	-	-
Cash flow from investing	(9,134)	(14,370)	(9,000)	(9,000)
Issue of equity	40	-	-	-
Issue/repay debt	(4,409)	(1,220)	1,970	(30)
Dividends paid	(5,348)	(2,195)	(4,395)	(4,395)
Other financing cashflow	-	-	-	-
Change in cash & cash eq	1,233	(5,996)	2,120	(191)
Closing cash & cash eq	7,435	1,439	3,559	3,368

Economic Value Added (EVA) analysis

Y/E Dec	CY07	CY08E	CY09E	CY10E
WACC (%)	13.8	13.4	13.4	13.4
ROIC (%)	31.2	28.1	19.2	14.5
Invested capital (Rs mn)	37,745	45,166	50,287	59,405
EVA (Rs mn)	6,566	6,653	2,915	630
EVA spread (%)	17.4	14.7	5.8	1.1

Financial ratios

Y/E Dec	CY07	CY08E	CY09E	CY10E
Profitability & Return ratios (%)				
EBITDA margin	27.4	25.3	21.6	19.8
EBIT margin	23.0	21.0	16.3	13.8
Net profit margin	17.5	15.8	12.4	10.2
ROE	33.7	27.1	18.7	14.8
ROCE	30.6	25.9	18.2	14.2
Working Capital & Liquidity ratios				
Receivables (days)	13	14	15	15
Inventory (days)	49	48	49	49
Payables (days)	74	75	70	67
Current ratio (x)	1.6	1.3	1.4	1.4
Quick ratio (x)	0.7	0.2	0.2	0.2
Turnover & Leverage ratios (x)				
Gross asset turnover	1.4	1.3	1.1	1.0
Total asset turnover	1.1	1.1	1.0	1.0
Interest coverage ratio	21.8	111.1	42.1	37.4
Adjusted debt/equity	0.1	0.0	0.1	0.1
Valuation ratios (x)				
EV/Sales	1.4	1.2	1.2	1.2
EV/EBITDA	5.1	4.9	5.7	6.0
P/E	7.9	7.8	9.9	11.5
P/BV	2.3	2.0	1.8	1.6

Ambuja Cement

Expansion plans lag behind peers

Volume growth to remain subdued: Ambuja Cement's capacity expansion programme is likely to be commissioned in phases at the end of CY09 and CY10, lagging behind peer addition timelines. This would result in lower volume growth over the next two years. We have assumed a 5% CAGR in volumes over CY08-CY10.

Realisations and margins under pressure: We have assumed a drop of 5% and 4% in realisations for CY09 and CY10 respectively, given the slowdown in housing activity. This coupled with higher operating costs would result in an EBITDA margin decline of 443bps for CY09 to 25.9% and 392bps for CY10 to 22%.

Earnings revised downwards: Considering the poor volume and pricing outlook, we have downsized our CY09 earnings estimate for the company by 10.1%. Accordingly, our EPS estimate stands revised to Rs 6 in CY09 from our previous EPS estimate of Rs 6.7.

Target and rating downgraded: We have pared down our target P/E multiple for the stock from 10x to 9.5x on two-year forward earnings. This translates to a revised target price of Rs 49 from Rs 59 previously. On an EV/EBITDA basis, the company is valued at 5x its two-year forward financials. Ambuja has been trading at a premium to peers primarily due to its cost efficient operations. However, with other players in the industry adopting similar cost saving measures, the valuation premium should narrow. Based on our target price, we revise our rating on the stock from Accumulate to Sell.

Revised estimates

Key parameters	CY09E		
	Old	New	% Chg
Cement volumes (mn MT)	18.9	18.2	(3.5)
Net sales	61,032	58,995	(3.3)
EBITDA	16,147	15,265	(5.5)
EBITDA margin (%)	*26.5*	25.9	(58bps)
Adj PAT	10,233	9,199	(10.1)
Adj EPS (Rs)	6.7	6.0	(10.1)

Source: RHH

Company Update | 16 December 2008

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 67	Rs 49	SELL	HIGH

BSE	NSE	BLOOMBERG
500300	AMBUJACEM	ACEM IN

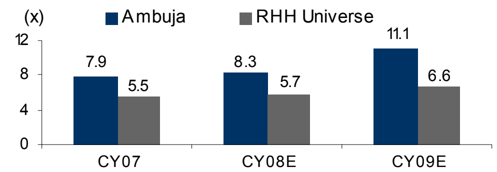
Company data

Market cap (Rs mn / US$ mn)	101,925 / 2,121
Outstanding equity shares (mn)	1,522
Free float (%)	51.8
Dividend yield (%)	5.2
52-week high/low (Rs)	152 / 43
2-month average daily volume	2,578,892

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Ambuja Cem	67	23.5	(15.2)	(21.2)
Sensex	9,832	4.8	(27.3)	(35.3)

P/E comparison



Valuation matrix

(x)	CY07	CY08E	CY09E	CY10E
P/E @ CMP	7.9	8.3	11.1	13.2
P/E @ Target	5.7	6.1	8.1	9.7
EV/EBITDA @ CMP	5.0	5.6	6.7	7.6

Financial highlights

(Rs mn)	CY07	CY08E	CY09E	CY10E
Revenue	57,048	60,697	58,995	60,979
Growth (%)	*(9.1)*	*6.4*	*(2.8)*	*3.4*
Adj net income	12,976	12,267	9,199	7,715
Growth (%)	*(11.3)*	*(5.5)*	*(25.0)*	*(16.1)*
FDEPS (Rs)	8.5	8.1	6.0	5.1
Growth (%)	*(11.6)*	*(5.5)*	*(25.0)*	*(16.1)*

Profitability and Return ratios

(%)	CY07	CY08E	CY09E	CY10E
EBITDA margin	35.8	30.3	25.9	22.0
EBIT margin	31.7	25.9	20.2	15.8
Adj PAT margin	22.7	20.2	15.6	12.7
ROE	31.8	24.1	16.2	13.1
ROIC	23.0	24.1	15.8	11.8
ROCE	28.6	23.0	15.8	12.8

Standalone financials

Profit and Loss statement

Y/E Dec (Rs mn)	CY07	CY08E	CY09E	CY10E
Revenues	**57,048**	**60,697**	**58,995**	**60,979**
Growth (%)	*(9.1)*	*6.4*	*(2.8)*	*3.4*
EBITDA	**20,451**	**18,393**	**15,265**	**13,388**
Growth (%)	*(4.4)*	*(10.1)*	*(17.0)*	*(12.3)*
Depreciation & amortisation	2,363	2,680	3,365	3,781
EBIT	18,088	15,713	11,900	9,606
Growth (%)	*(0.2)*	*(13.1)*	*(24.3)*	*(19.3)*
Interest	759	196	196	116
Other income	1,935	1,906	1,113	1,257
EBT	19,265	17,423	12,817	10,747
Income taxes	9,433	5,619	3,618	3,032
Effective tax rate (%)	*49.0*	*32.2*	*28.2*	*28.2*
Extraordinary items	7,859	3,083	-	-
Min int / inc from associates	-	-	-	-
Reported net income	17,691	14,888	9,199	7,715
Adjustments	7,859	3,083	-	-
Adjusted net income	**12,976**	**12,267**	**9,199**	**7,715**
Growth (%)	*(11.3)*	*(5.5)*	*(25.0)*	*(16.1)*
Shares outstanding (mn)	1,522.4	1,522.4	1,522.4	1,522.4
FDEPS (Rs) (adj)	**8.5**	**8.1**	**6.0**	**5.1**
Growth (%)	*(11.6)*	*(5.5)*	*(25.0)*	*(16.1)*
DPS (Rs)	3.5	3.5	3.5	3.5

Balance sheet

Y/E Dec (Rs mn)	CY07	CY08E	CY09E	CY10E
Cash and cash eq	6,508	2,114	1,342	3,109
Accounts receivable	1,457	1,663	1,616	1,671
Inventories	5,816	6,954	7,189	7,823
Other current assets	2,093	2,093	2,093	2,093
Investments	12,889	15,889	8,389	9,389
Gross fixed assets	52,311	66,778	82,778	85,278
Net fixed assets	31,466	41,387	54,022	52,741
CWIP	5,100	2,500	1,500	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(3,784)	(3,775)	(3,766)	(3,757)
Other assets	62	62	62	62
Total assets	**61,608**	**68,888**	**72,447**	**73,131**
Accounts payable	5,740	5,820	6,465	6,683
Other current liabilities	1,016	1,016	1,016	1,016
Provisions	4,936	4,337	4,287	4,273
Debt funds	3,304	2,448	2,448	1,448
Other liabilities	-	-	-	-
Equity capital	3,045	3,045	3,045	3,045
Reserves & surplus	43,568	52,222	55,186	56,667
Shareholder's funds	46,613	55,266	58,231	59,712
Total liabilities	**61,608**	**68,888**	**72,447**	**73,131**
BVPS (Rs)	30.6	36.3	38.2	39.2

Cash flow statement

Y/E Dec (Rs mn)	CY07	CY08E	CY09E	CY10E
Net income +depreciation	20,054	17,567	12,564	11,496
Non-cash adjustments	(2,505)	(2,567)	(59)	(24)
Changes in working capital	(1,110)	(1,264)	457	(472)
Cash flow from operations	16,440	13,737	12,962	11,001
Capital expenditure	(5,284)	(10,000)	(15,000)	(1,000)
Change in investments	(7,296)	(3,000)	7,500	(1,000)
Other investing cashflow	9,964	-	-	-
Cash flow from investing	(2,616)	(13,000)	(7,500)	(2,000)
Issue of equity	323	-	-	-
Issue/repay debt	(5,253)	(856)	0	(1,000)
Dividends paid	(5,831)	(4,275)	(6,234)	(6,234)
Other financing cashflow	(1)	-	-	-
Change in cash & cash eq	3,062	(4,394)	(772)	1,767
Closing cash & cash eq	6,508	2,114	1,342	3,109

Financial ratios

Y/E Dec	CY07	CY08E	CY09E	CY10E
Profitability & Return ratios (%)				
EBITDA margin	35.8	30.3	25.9	22.0
EBIT margin	31.7	25.9	20.2	15.8
Net profit margin	22.7	20.2	15.6	12.7
ROE	31.8	24.1	16.2	13.1
ROCE	28.6	23.0	15.8	12.8
Working Capital & Liquidity ratios				
Receivables (days)	8	9	10	10
Inventory (days)	49	55	59	58
Payables (days)	51	50	51	50
Current ratio (x)	2.3	1.9	1.6	1.9
Quick ratio (x)	1.2	0.6	0.4	0.6
Turnover & Leverage ratios (x)				
Gross asset turnover	1.2	1.0	0.8	0.7
Total asset turnover	1.0	0.9	0.8	0.8
Interest coverage ratio	23.8	80.2	60.8	82.9
Adjusted debt/equity	0.1	0.0	0.0	0.0
Valuation ratios (x)				
EV/Sales	1.8	1.7	1.7	1.7
EV/EBITDA	5.0	5.6	6.7	7.6
P/E	7.9	8.3	11.1	13.2
P/BV	2.2	1.8	1.8	1.7

Economic Value Added (EVA) analysis

Y/E March	CY07	CY08E	CY09E	CY10E
WACC (%)	7.5	12.3	12.3	12.3
ROIC (%)	23.0	24.1	15.8	11.8
Invested capital (Rs mn)	39,858	48,451	59,638	57,337
EVA (Rs mn)	6,203	5,715	2,080	(301)
EVA spread (%)	15.6	11.8	3.5	(0.5)

Birla Corporation

Liquid investments to mitigate earnings risk

Volume growth over FY09-FY11 due to lower base effect: Birla Corporation has witnessed an extended shutdown at its Satna (Madhya Pradesh) plant on account of expansion-related activity, which would mute cement sales in FY09. However, the lower base coupled with brownfield expansion would drive a 12.7% volume CAGR over FY09-FY11.

Squeeze on cement realisations to continue: The central region is likely to witness surplus capacities of 0.9mn MT in FY10 and 1.6mn MT in FY11. This apart, a strong capacity build-up in the northern region will accentuate the problem for Birla Corp, which has its capacities in Madhya Pradesh. We expect a drop in realisations of ~5% for the company in FY10 and FY11.

Jute, other businesses to log subdued growth: Birla Corp's income from the sale of jute goods and other businesses will post a mere 5.1% CAGR over FY09-FY11, offering little support to the sagging cement segment.

Strong cash balance to buoy the company: The company holds strong cash balance and liquid investments of ~Rs 6bn. This will help the company to ride the earnings risk should there be a more significant volume and realisation drop.

EBITDA and earnings under stress: The lack of an upside to cement realisations will result in a contraction in operating margin by 406bps to 21.2% in FY10 and by 251bps to 18.7% in FY11. The rising depreciation charge on account of augmented cement capacities would result in an earnings de-growth of ~10.2% in the next two years.

Downgrade to Accumulate: Based on target P/E multiple of 3.5x its two-year forward earnings of Rs 36.3, we arrive at a target price of Rs 127. We downgrade Birla Corp from Buy to Accumulate. On an EV/EBITDA basis, the company is valued at 1.3x two-year forward financials.

Company Update | 16 December 2008

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 116	Rs 127	ACCUMULATE	HIGH

BSE	NSE	BLOOMBERG
500335	BIRLACORPN	BCORP IN

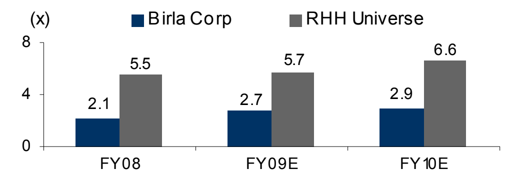
Company data

Market cap (Rs mn / US$ mn)	8,941 / 186
Outstanding equity shares (mn)	77
Free float (%)	37.1
Dividend yield (%)	4.3
52-week high/low (Rs)	362 / 70
2-month average daily volume	147,122

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Birla Corp	116	17.6	(18.4)	(34.8)
Sensex	9,832	4.8	(27.3)	(35.3)

P/E comparison



Valuation matrix

(x)	FY07	FY08	FY09E	FY10E
P/E @ CMP	2.7	2.1	2.7	2.9
P/E @ Target	3.0	2.3	3.0	3.2
EV/EBITDA @ CMP	2.2	1.8	2.5	2.7

Financial highlights

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenue	15,669	17,248	17,281	19,182
Growth (%)	*28.9*	*10.1*	*0.2*	*11.0*
Adj net income	3,262	4,196	3,299	3,057
Growth (%)	*159.4*	*28.6*	*(21.4)*	*(7.3)*
FDEPS (Rs)	42.4	54.5	42.8	39.7
Growth (%)	*159.4*	*28.6*	*(21.4)*	*(7.3)*

Profitability and Return ratios

(%)	FY07	FY08	FY09E	FY10E
EBITDA margin	31.5	34.9	25.3	21.2
EBIT margin	29.0	32.5	22.7	18.4
Adj PAT margin	20.8	24.3	19.1	15.9
ROE	62.1	50.2	28.8	21.5
ROIC	36.7	30.1	18.9	16.4
ROCE	42.3	39.1	24.5	19.4

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**15,669**	**17,248**	**17,281**	**19,182**
Growth (%)	*28.9*	*10.1*	*0.2*	*11.0*
EBITDA	**4,934**	**6,014**	**4,368**	**4,069**
Growth (%)	*176.0*	*21.9*	*(27.4)*	*(6.8)*
Depreciation & amortisation	397	414	441	534
EBIT	4,538	5,600	3,927	3,535
Growth (%)	*213.8*	*23.4*	*(29.9)*	*(10.0)*
Interest	185	211	174	151
Other income	265	383	566	673
EBT	4,617	5,772	4,319	4,057
Income taxes	1,355	1,576	1,020	1,000
Effective tax rate (%)	*29.3*	*27.3*	*23.6*	*24.7*
Extraordinary items	-	-	-	-
Min int / inc from associates	-	-	-	-
Reported net income	3,262	4,196	3,299	3,057
Adjustments	-	-	-	-
Adjusted net income	**3,262**	**4,196**	**3,299**	**3,057**
Growth (%)	*159.4*	*28.6*	*(21.4)*	*(7.3)*
Shares outstanding (mn)	77.0	77.0	77.0	77.0
FDEPS (Rs) (adj)	**42.4**	**54.5**	**42.8**	**39.7**
Growth (%)	*159.4*	*28.6*	*(21.4)*	*(7.3)*
DPS (Rs)	3.5	4.0	5.0	5.0

Balance sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash and cash eq	344	314	188	1,384
Accounts receivable	272	317	331	368
Inventories	1,426	2,004	1,592	1,863
Other current assets	3,053	4,731	2,592	2,877
Investments	4,201	6,340	6,340	6,340
Gross fixed assets	11,544	11,734	15,001	15,501
Net fixed assets	5,191	5,008	7,834	7,800
CWIP	72	1,267	-	1,000
Intangible assets	-	-	-	-
Deferred tax assets, net	(747)	(667)	(679)	(690)
Other assets	4	-	-	-
Total assets	**13,815**	**19,314**	**18,199**	**20,942**
Accounts payable	1,746	2,135	2,300	2,691
Other current liabilities	663	876	-	-
Provisions	1,922	3,531	701	696
Debt funds	2,826	2,723	2,300	2,050
Other liabilities	-	-	-	-
Equity capital	770	770	770	770
Reserves & surplus	5,888	9,280	12,128	14,735
Shareholder's funds	6,658	10,050	12,898	15,505
Total liabilities	**13,815**	**19,314**	**18,199**	**20,942**
BVPS (Rs)	86.5	130.5	167.5	201.3

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net income + Depreciation	3,659	4,610	3,740	3,591
Non-cash adjustments	(78)	(257)	(2,908)	7
Changes in working capital	(684)	(439)	1,826	(201)
Cash flow from operations	2,897	3,914	2,657	3,396
Capital expenditure	(341)	(1,421)	(2,000)	(1,500)
Change in investments	(2,422)	(2,084)	-	-
Other investing cash flow	(293)	(25)	-	-
Cash flow from investing	(3,056)	(3,531)	(2,000)	(1,500)
Issue of equity	-	-	-	-
Issue/repay debt	109	(113)	(423)	(250)
Dividends paid	(197)	(314)	(360)	(450)
Other financing cashflow	(0)	16	-	-
Change in cash & cash eq	(247)	(29)	(126)	1,196
Closing cash & cash eq	344	314	188	1,384

Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	14.9	15.8	15.4	15.4
ROIC (%)	36.7	30.1	18.9	16.4
Invested capital (Rs mn)	11,068	15,998	15,711	16,867
EVA (Rs mn)	2,403	2,287	550	158
EVA spread (%)	21.7	14.3	3.5	0.9

Financial ratios

Y/E March	FY07	FY08	FY09E	FY10E
Profitability & Return ratios (%)				
EBITDA margin	31.5	34.9	25.3	21.2
EBIT margin	29.0	32.5	22.7	18.4
Net profit margin	20.8	24.3	19.1	15.9
ROE	62.1	50.2	28.8	21.5
ROCE	42.3	39.1	24.5	19.4
Working Capital & Liquidity ratios				
Receivables (days)	6	6	7	7
Inventory (days)	42	56	51	42
Payables (days)	62	63	63	60
Current ratio (x)	2.1	2.4	2.0	2.4
Quick ratio (x)	0.3	0.2	0.2	0.7
Turnover & Leverage ratios (x)				
Gross asset turnover	1.4	1.5	1.3	1.3
Total asset turnover	1.3	1.0	0.9	1.0
Interest coverage ratio	24.5	26.6	22.6	23.4
Adjusted debt/equity	0.4	0.3	0.2	0.1
Valuation ratios (x)				
EV/Sales	0.7	0.6	0.6	0.6
EV/EBITDA	2.2	1.8	2.5	2.7
P/E	2.7	2.1	2.7	2.9
P/BV	1.3	0.9	0.7	0.6

Grasim Industries

Relatively better placed

Capacity expansion well timed: Grasim Industries has timed its capacity expansion plan perfectly, with a majority of its capex being incurred in FY09. Therefore, any decline in prices and demand is unlikely to significantly affect its cash flow profile going forward.

Sponge iron hive-off a notable plus: The company has sold its sponge iron business for Rs 10bn, which would result in stronger margins over the next two years. Sponge iron contributed 10% to the topline, but earned lower margins (15%) as compared to the cement business. With the contribution from cement increasing, the company's EBITDA margin is expected to improve from 25.8% in FY09 to 27.5% in FY10.

Potential candidate for M&A: Grasim has a strong balance sheet and is expected to generate significant cash flows in the next two years. Further, with experience in acquisitions (bought over UltraTech in 2004), we believe Grasim will be a potential candidate for acquiring companies in the medium term.

Earnings to improve over FY09-FY11 (excluding sponge iron): Excluding the sponge iron contribution in FY09, the company's earnings are estimated to increase at an 11.3% CAGR over the next two years. This would be aided by improvement in the operating margin.

Target revised downward; maintain Buy: We have reduced our revenue estimates by 15% for FY10, partly on account of the sponge iron business hive-off and partly owing to lower volume growth from the cement and VSF segments. Accordingly, our SOTP target price also declines to Rs 1,344 from Rs 1,500. We maintain our Buy rating on the stock.

Revised estimates

Key parameters	FY10E		
	Old	New	% Chg
Cement volumes (mn MT)	21.3	19.2	(10.0)
Net sales	121,423	103,130	(15.1)
EBITDA	29,267	28,382	(3.0)
EBITDA margin (%)	24.1	27.5	342bps
Adj PAT	18,222	18,307	0.5
Adj EPS (Rs)	198.7	199.7	0.5

Source: RHH

Company Update | 16 December 2008

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 1,174	Rs 1,344	BUY	MEDIUM

BSE	NSE	BLOOMBERG
500300	GRASIM	GRASIM IN

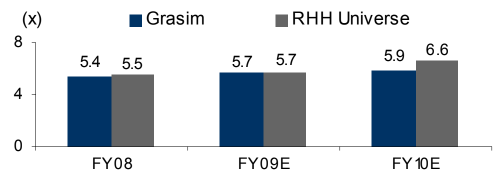
Company data

Market cap (Rs mn / US$ mn)	107,635 / 2,240
Outstanding equity shares (mn)	92
Free float (%)	71.0
Dividend yield (%)	2.6
52-week high/low (Rs)	3,830 / 824
2-month average daily volume	218,687

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Grasim	1,174	14.6	(39.2)	(46.2)
Sensex	9,832	4.8	(27.3)	(35.3)

P/E comparison



Valuation matrix

(x)	FY07	FY08	FY09E	FY10E
P/E @ CMP	7.1	5.4	5.7	5.9
P/E @ Target	8.2	6.2	6.5	6.7
EV/EBITDA @ CMP	5.4	4.2	4.6	4.5

Financial highlights

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenue	85,717	102,151	106,764	103,130
Growth (%)	*28.8*	*19.2*	*4.5*	*(3.4)*
Adj net income	15,099	20,005	18,911	18,307
Growth (%)	*75.5*	*32.5*	*(5.5)*	*(3.2)*
FDEPS (Rs)	164.7	218.2	206.3	199.7
Growth (%)	*75.5*	*32.5*	*(5.5)*	*(3.2)*

Profitability and Return ratios

(%)	FY07	FY08	FY09E	FY10E
EBITDA margin	27.3	29.8	25.8	27.5
EBIT margin	23.6	26.4	21.6	22.0
Adj PAT margin	17.6	19.6	17.7	17.8
ROE	26.9	27.8	20.8	17.0
ROIC	17.5	17.9	14.4	12.6
ROCE	19.6	20.1	16.3	14.4

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**85,717**	**102,151**	**106,764**	**103,130**
Growth (%)	*28.8*	*19.2*	*4.5*	*(3.4)*
EBITDA	**23,373**	**30,467**	**27,578**	**28,382**
Growth (%)	*69.7*	*30.4*	*(9.5)*	*2.9*
Depreciation & amortisation	3,179	3,533	4,501	5,694
EBIT	20,194	26,934	23,077	22,688
Growth (%)	*86.1*	*33.4*	*(14.3)*	*(1.7)*
Interest	1,118	1,070	1,205	965
Other income	2,818	3,778	3,471	3,837
EBT	21,893	29,642	25,343	25,560
Income taxes	6,906	9,623	6,432	7,253
Effective tax rate (%)	*31.5*	*32.5*	*25.4*	*28.4*
Extraordinary items	371	2,307	3,409	-
Min int / inc from associates	-	-	-	-
Reported net income	15,358	22,326	22,320	18,307
Adjustments	260	2,321	3,409	-
Adjusted net income	**15,099**	**20,005**	**18,911**	**18,307**
Growth (%)	*75.5*	*32.5*	*(5.5)*	*(3.2)*
Shares outstanding (mn)	91.7	91.7	91.7	91.7
FDEPS (Rs) (adj)	**164.7**	**218.2**	**206.3**	**199.7**
Growth (%)	*75.5*	*32.5*	*(5.5)*	*(3.2)*
DPS (Rs)	27.5	30.0	30.0	35.0

Balance sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash and cash eq	1,164	1,275	8,876	7,913
Accounts receivable	5,765	7,120	7,313	7,064
Inventories	8,241	9,784	9,763	10,239
Other current assets	8,254	11,412	10,683	10,320
Investments	42,747	40,808	40,808	43,308
Gross fixed assets	67,604	75,657	117,709	127,209
Net fixed assets	33,837	40,084	77,559	81,365
CWIP	11,924	30,263	2,000	2,000
Intangible assets	68	151	-	-
Deferred tax assets, net	(5,826)	(6,069)	(6,165)	(6,261)
Other assets	143	41	41	41
Total assets	**106,317**	**134,870**	**150,879**	**155,989**
Accounts payable	9,031	11,868	13,163	11,302
Other current liabilities	3,638	4,174	4,174	4,174
Provisions	1,832	5,402	4,818	5,437
Debt funds	29,516	32,019	28,214	20,014
Other liabilities	-	-	-	-
Equity capital	917	966	966	966
Reserves & surplus	61,384	80,441	99,543	114,096
Shareholder's funds	62,300	81,407	100,509	115,062
Total liabilities	**106,317**	**134,870**	**150,879**	**155,989**
BVPS (Rs)	679.5	887.9	1,096.2	1,254.9

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net income+Depreciation	18,537	25,859	26,821	24,002
Non-cash adjustments	(331)	(3,389)	(541)	178
Changes in working capital	(834)	(1,598)	1,852	(1,725)
Cash flow from operations	17,373	20,872	28,133	22,455
Capital expenditure	(15,982)	(28,026)	(13,562)	(9,500)
Change in investments	(6,471)	5,083	-	(2,500)
Other investing cashflow	-	-	-	-
Cash flow from investing	(22,453)	(22,943)	(13,562)	(12,000)
Issue of equity	-	-	-	-
Issue/repay debt	9,476	2,360	(3,805)	(8,200)
Dividends paid	(4,788)	(178)	(3,164)	(3,218)
Other financing cashflow	-	-	-	-
Change in cash & cash eq	(392)	111	7,602	(963)
Closing cash & cash eq	1,164	1,275	8,876	7,913

Financial ratios

Y/E March	FY07	FY08	FY09E	FY10E
Profitability & Return ratios (%)				
EBITDA margin	27.3	29.8	25.8	27.5
EBIT margin	23.6	26.4	21.6	22.0
Net profit margin	17.6	19.6	17.7	17.8
ROE	26.9	27.8	20.8	17.0
ROCE	19.6	20.1	16.3	14.4
Working Capital & Liquidity ratios				
Receivables (days)	15	16	17	17
Inventory (days)	46	46	45	49
Payables (days)	48	53	58	60
Current ratio (x)	1.8	1.8	2.1	2.3
Quick ratio (x)	0.5	0.5	0.4	0.5
Turnover & Leverage ratios (x)				
Gross asset turnover	1.3	1.4	1.1	0.8
Total asset turnover	0.9	0.8	0.7	0.7
Interest coverage ratio	18.1	25.2	19.2	23.5
Adjusted debt/equity	0.5	0.4	0.3	0.2
Valuation ratios (x)				
EV/Sales	1.5	1.2	1.2	1.2
EV/EBITDA	5.4	4.2	4.6	4.5
P/E	7.1	5.4	5.7	5.9
P/BV	1.7	1.3	1.1	0.9

Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	11.9	12.1	12.1	12.1
ROIC (%)	17.5	17.9	14.4	12.6
Invested capital (Rs mn)	89,359	114,114	125,007	132,941
EVA (Rs mn)	5,037	6,558	2,892	678
EVA spread (%)	5.6	5.7	2.3	0.5

India Cements

Supply overhang to restrict realisations

Moderate volume growth, income from other business to dip: India Cements (ICL) is expanding its clinker capacity from 8.8mn MT in FY08 to 10.8mn MT in FY11. We thus expect the company's cement sales volume to increase at a CAGR of 9% over FY09-FY11. However, freight income will see a significant drop due to a decline in trade activity in the midst of a sluggish economy.

Southern region to witness highest supply overhang: ICL is a leading player in South India, where cement surplus is expected to be the highest among regions at ~9–10mn MT in FY10 and FY11. Despite buoyant demand in the region, ICL may see some pressure on realisations. This would lead to a meagre topline CAGR of 4% over FY09-FY11.

EBITDA and earnings to decline: Although ICL will benefit from the lower Indonesian coal prices (~70% dependence), the company will see a decline in margins as realisations drop. This will lead to a fall in operating profit by 12.2% and 9.7% in FY10 and FY11 respectively. Further, higher depreciation owing to the ongoing capex programme would dampen earnings. We have lowered our earnings estimates by 12% for FY10.

Target price and rating downgraded: Our target P/E multiple of 6x two-year forward earnings of Rs 17 yields a fair value of Rs 102 for the stock, as against our earlier target price of Rs 121; we downgrade our rating from Buy to Reduce primarily on account of our earnings revision. On an EV/EBITDA basis, the company is valued at 4.5x its two-year forward financials.

Revised estimates

Key parameters	FY10E		
	Old	New	% Chg
Cement Volumes (mn MT)	11.4	10.9	(4.3)
Revenue (Rs mn)	40,262	38,342	(4.8)
EBITDA (Rs mn)	11,514	10,502	(8.8)
EBITDA margin (%)	28.6	27.4	(121bps)
Adj PAT (Rs mn)	6,364	5,603	(12.0)
Adj EPS (Rs)	21.7	19.1	(12.0)

Source: RHH

Company Update

16 December 2008

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 100	Rs 102	REDUCE	HIGH

BSE	NSE	BLOOMBERG
530005	INDIACEM	ICEM IN

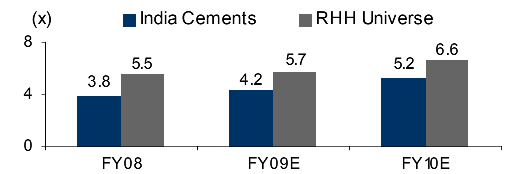
Company data

Market cap (Rs mn / US$ mn)	28,088 / 585
Outstanding equity shares (mn)	282
Free float (%)	71.2
Dividend yield (%)	3.0
52-week high/low (Rs)	332 / 69
2-month average daily volume	865,858

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
India Cem	100	20.5	(27.5)	(38.1)
Sensex	9,832	4.8	(27.3)	(35.3)

P/E comparison



Valuation matrix

(x)	FY07	FY08	FY09E	FY10E
P/E @ CMP	4.6	3.8	4.2	5.2
P/E @ Target	4.7	3.9	4.3	5.3
EV/EBITDA @ CMP	5.7	3.9	3.5	4.0

Financial highlights

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenue	22,552	30,442	37,050	38,342
Growth (%)	*46.3*	*35.0*	*21.7*	*3.5*
Adj net income	4,788	6,857	6,867	5,603
Growth (%)	*1,239.5*	*43.2*	*0.1*	*(18.4)*
FDEPS (Rs)	21.5	26.0	23.4	19.1
Growth (%)	*866.5*	*21.2*	*(9.9)*	*(18.4)*

Profitability and Return ratios

(%)	FY07	FY08	FY09E	FY10E
EBITDA margin	32.6	35.5	32.3	27.4
EBIT margin	28.0	31.3	26.9	21.4
Adj PAT margin	21.2	22.5	18.5	14.6
ROE	24.3	24.8	19.0	13.5
ROIC	16.8	16.5	14.3	10.7
ROCE	16.6	16.9	14.2	10.9

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**22,552**	**30,442**	**37,050**	**38,342**
Growth (%)	*46.3*	*35.0*	*21.7*	*3.5*
EBITDA	**7,343**	**10,794**	**11,967**	**10,502**
Growth (%)	*181.4*	*47.0*	*10.9*	*(12.2)*
Depreciation & amortisation	1,026	1,279	1,994	2,302
EBIT	6,316	9,515	9,973	8,200
Growth (%)	*246.9*	*50.6*	*4.8*	*(17.8)*
Interest	1,498	1,099	958	748
Other income	101	511	399	255
EBT	4,920	8,928	9,415	7,707
Income taxes	131	2,071	2,548	2,104
Effective tax rate (%)	*2.7*	*23.2*	*27.1*	*27.3*
Extraordinary items	-	(481)	(513)	-
Min int / inc from associates	-	-	-	-
Reported net income	4,788	6,375	6,354	5,603
Adjustments	-	(481)	(513)	-
Adjusted net income	**4,788**	**6,857**	**6,867**	**5,603**
Growth (%)	*1,239.5*	*43.2*	*0.1*	*(18.4)*
Shares outstanding (mn)	220.4	281.9	281.9	281.9
FDEPS (Rs) (adj)	**21.5**	**26.0**	**23.4**	**19.1**
Growth (%)	*866.5*	*21.2*	*(9.9)*	*(18.4)*
DPS (Rs)	1.0	2.0	3.0	3.0

Balance sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash and cash eq	2,302	4,256	2,192	1,628
Accounts receivable	2,602	3,111	3,553	3,677
Inventories	2,281	3,302	3,780	4,195
Other current assets	9,990	10,825	10,825	10,825
Investments	551	1,293	1,293	1,293
Gross fixed assets	38,560	47,087	57,836	63,336
Net fixed assets	27,958	34,645	43,400	46,598
CWIP	1,428	5,749	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(430)	(2,257)	(2,357)	(2,457)
Other assets	331	238	238	238
Total assets	**47,013**	**61,161**	**62,923**	**65,996**
Accounts payable	1,518	6,239	3,553	3,677
Other current liabilities	2,518	2,937	2,937	2,937
Provisions	305	659	1,234	1,190
Debt funds	20,588	18,115	16,111	14,490
Other liabilities	-	-	-	-
Equity capital	2,604	2,819	2,819	2,819
Reserves & surplus	19,482	30,392	36,270	40,884
Shareholder's funds	22,085	33,211	39,089	43,703
Total liabilities	**47,013**	**61,161**	**62,923**	**65,996**
BVPS (Rs)	100.2	117.8	138.7	155.0

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net income+Depreciation	5,815	7,655	8,347	7,906
Non-cash adjustments	(1,435)	687	858	56
Changes in working capital	(375)	357	(3,606)	(415)
Cash flow from operations	4,005	8,698	5,599	7,546
Capital expenditure	(1,392)	(9,182)	(5,000)	(5,500)
Change in investments	(1,024)	(1,073)	-	-
Other investing cashflow	-	-	-	-
Cash flow from investing	(2,416)	(10,255)	(5,000)	(5,500)
Issue of equity	1,252	5,833	-	-
Issue/repay debt	(584)	(1,917)	(2,004)	(1,620)
Dividends paid	-	-	(659)	(989)
Other financing cashflow	(447)	(305)	-	-
Change in cash & cash eq	1,811	2,056	(2,065)	(564)
Closing cash & cash eq	2,302	4,256	2,192	1,628

Financial ratios

Y/E March	FY07	FY08	FY09E	FY10E
Profitability & Return ratios (%)				
EBITDA margin	32.6	35.5	32.3	27.4
EBIT margin	28.0	31.3	26.9	21.4
Net profit margin	21.2	22.5	18.5	14.6
ROE	24.3	24.8	19.0	13.5
ROCE	16.6	16.9	14.2	10.9
Working Capital & Liquidity ratios				
Receivables (days)	41	34	33	34
Inventory (days)	51	52	52	52
Payables (days)	32	72	71	47
Current ratio (x)	4.3	2.3	3.1	3.1
Quick ratio (x)	0.7	0.4	0.9	0.8
Turnover & Leverage ratios (x)				
Gross asset turnover	0.7	0.7	0.7	0.6
Total asset turnover	0.5	0.6	0.6	0.6
Interest coverage ratio	4.2	8.7	10.4	11.0
Adjusted debt/equity	0.7	0.4	0.3	0.2
Valuation ratios (x)				
EV/Sales	1.9	1.4	1.1	1.1
EV/EBITDA	5.7	3.9	3.5	4.0
P/E	4.6	3.8	4.2	5.2
P/BV	1.0	0.8	0.7	0.6

Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	13.1	14.1	13.7	13.7
ROIC (%)	16.8	16.5	14.3	10.7
Invested capital (Rs mn)	40,706	47,745	54,220	57,733
EVA (Rs mn)	1,500	1,153	296	(1,774)
EVA spread (%)	3.7	2.4	0.5	(3.1)

JK Lakshmi Cement

Spiralling expenses to drive down earnings

Company Update | 16 December 2008

What's New? | Target | Rating | Estimates

CMP	TARGET	RATING	RISK
Rs 41	Rs 37	SELL	HIGH

BSE	NSE	BLOOMBERG
500380	JKLAKSHMI	JKLC IN

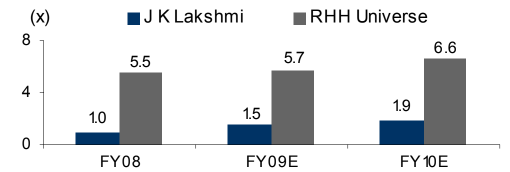
Company data

Market cap (Rs mn / US$ mn)	2,524 / 53
Outstanding equity shares (mn)	61
Free float (%)	54.1
Dividend yield (%)	7.1
52-week high/low (Rs)	223 / 30
2-month average daily volume	62,450

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
JK Lakshmi	41	6.6	(43.4)	(56.5)
Sensex	9,832	4.8	(27.3)	(35.3)

P/E comparison



Valuation matrix

(x)	FY07	FY08	FY09E	FY10E
P/E @ CMP	1.3	1.0	1.5	1.9
P/E @ Target	1.1	0.9	1.3	1.7
EV/EBITDA @ CMP	3.0	2.2	2.7	2.9

Volume growth in line with industry average: JK Lakshmi Cement has a current cement production capacity of 3.7mn MT. The company is set to log a volume sales CAGR of 4% over FY09-FY11 as it expands its clinker capability by 0.8mn MT at Sirohi (Rajasthan) in Q1FY10.

Declining realisations to affect topline: Sluggish housing activity coupled with the capacity build-up in north India, a key market for the company, will result in declining realisations. We anticipate surplus cement capacity of 2.4mn MT (5% of actual capacity) in the northern region in FY10 and 5.7mn MT (10% of actual capacity) in FY11, which would cause the company's realisations to drop by an estimated 4.4% in FY10 and 3.1% in FY11.

Rising expenses will squeeze margins: JK Lakshmi's operating expenses are expected to increase at a relatively faster pace than the topline. This coupled with lower realisations would result in an EBITDA margin squeeze of ~400bps and ~250bps in FY10 and FY11 respectively.

Earning to decline at a 22% CAGR: The company's earnings will come under pressure as depreciation increases considerably on the back of new capacity additions, while operating profits fall. We maintain our forecast of a decline in earnings by a 22% CAGR in FY09-FY11.

Delays in expansion a further risk to estimates: The 0.8mn MT clinker augmentation drive in Sirohi has seen considerable delays and is now expected to be commissioned in Q1FY10. The company's 2.3mn MT greenfield kiln expansion in Durg (Madhya Pradesh) has not seen any development so far, with equipment orders yet to be placed. While the commissioning timeline has been put at Q4FY11, the unit remains susceptible to further delays.

Reduction in target multiple; downgrade to Sell: The downturn in the real estate market and the company's exposure to the northern region has prompted us to prune our target P/E multiple for the stock from 2.5x to 2x two-year forward earnings. Accordingly, our target price moves to Rs 37 as against Rs 48 previously. We downgrade JK Lakshmi from Accumulate to Sell as we believe the stock is fully valued and it faces a higher downside risk to earnings. On an EV/EBITDA basis, the company is valued at 2.8x its two-year forward financials.

Financial highlights

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenue	8,438	11,077	11,593	12,417
Growth (%)	*44.9*	*31.3*	*4.7*	*7.1*
Adj net income	1,781	2,447	1,668	1,357
Growth (%)	*221.2*	*37.4*	*(31.8)*	*(18.6)*
FDEPS (Rs)	33.0	42.1	27.3	22.2
Growth (%)	*195.8*	*27.8*	*(35.2)*	*(18.6)*

Profitability and Return ratios

(%)	FY07	FY08	FY09E	FY10E
EBITDA margin	30.3	31.7	25.3	21.4
EBIT margin	25.1	26.4	19.3	14.7
Adj PAT margin	21.1	22.1	14.4	10.9
ROE	56.8	46.3	23.3	16.0
ROIC	22.2	25.7	16.4	11.9
ROCE	20.9	21.9	14.6	11.4

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**8,438**	**11,077**	**11,593**	**12,417**
Growth (%)	*44.9*	*31.3*	*4.7*	*7.1*
EBITDA	**2,560**	**3,513**	**2,937**	**2,653**
Growth (%)	*111.8*	*37.2*	*(16.4)*	*(9.6)*
Depreciation & amortisation	443	585	704	822
EBIT	2,117	2,927	2,233	1,831
Growth (%)	*212.1*	*38.3*	*(23.7)*	*(18.0)*
Interest	361	278	371	338
Other income	33	67	43	60
EBT	1,788	2,716	1,905	1,552
Income taxes	7	269	238	195
Effective tax rate (%)	*0.4*	*9.9*	*12.5*	*12.6*
Extraordinary items	-	(210)	-	-
Min int / inc from associates	-	-	-	-
Reported net income	1,781	2,237	1,668	1,357
Adjustments	-	(210)	-	-
Adjusted net income	**1,781**	**2,447**	**1,668**	**1,357**
Growth (%)	*221.2*	*37.4*	*(31.8)*	*(18.6)*
Shares outstanding (mn)	57.1	61.2	61.2	61.2
FDEPS (Rs) (adj)	**33.0**	**42.1**	**27.3**	**22.2**
Growth (%)	*195.8*	*27.8*	*(35.2)*	*(18.6)*
DPS (Rs)	1.2	2.9	2.9	2.9

Balance sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash and cash eq	1,507	3,476	1,317	1,860
Accounts receivable	178	186	318	340
Inventories	558	622	711	803
Other current assets	1,177	1,619	1,694	1,815
Investments	581	130	130	130
Gross fixed assets	13,405	14,741	18,003	20,253
Net fixed assets	7,455	8,108	10,666	12,093
CWIP	766	1,011	1,250	-
Intangible assets	-	-	-	-
Deferred tax assets, net	380	120	(109)	(295)
Other assets	0	0	0	0
Total assets	**12,602**	**15,273**	**15,978**	**16,746**
Accounts payable	1,062	1,332	1,270	1,361
Other current liabilities	-	-	-	-
Provisions	106	438	216	216
Debt funds	7,296	7,078	6,578	6,078
Other liabilities	-	-	-	-
Equity capital	611	612	612	612
Reserves & surplus	3,527	5,812	7,301	8,479
Shareholder's funds	4,138	6,424	7,913	9,091
Total liabilities	**12,602**	**15,273**	**15,978**	**16,746**
BVPS (Rs)	72.5	105.0	129.3	148.6

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net income+Depreciation	2,224	2,822	2,372	2,179
Non-cash adjustments	110	(81)	(64)	186
Changes in working capital	303	551	(358)	(144)
Cash flow from operations	2,637	3,292	1,949	2,222
Capital expenditure	(1,540)	(1,613)	(3,500)	(1,000)
Change in investments	(558)	496	-	-
Other investing cashflow	-	-	-	-
Cash flow from investing	(2,098)	(1,117)	(3,500)	(1,000)
Issue of equity	260	360	(0)	(0)
Issue/repay debt	587	(218)	(500)	(500)
Dividends paid	-	(138)	(107)	(179)
Other financing cashflow	-	(210)	-	-
Change in cash & cash eq	1,386	1,969	(2,159)	543
Closing cash & cash eq	1,507	3,476	1,317	1,860

Financial ratios

Y/E March	FY07	FY08	FY09E	FY10E
Profitability & Return ratios (%)				
EBITDA margin	30.3	31.7	25.3	21.4
EBIT margin	25.1	26.4	19.3	14.7
Net profit margin	21.1	22.1	14.4	10.9
ROE	56.8	46.3	23.3	16.0
ROCE	20.9	21.9	14.6	11.4
Working Capital & Liquidity ratios				
Receivables (days)	8	6	8	10
Inventory (days)	29	28	28	28
Payables (days)	49	58	55	49
Current ratio (x)	3.2	4.4	3.2	3.5
Quick ratio (x)	1.6	2.7	1.3	1.6
Turnover & Leverage ratios (x)				
Gross asset turnover	0.7	0.8	0.7	0.6
Total asset turnover	0.8	0.8	0.7	0.8
Interest coverage ratio	5.9	10.5	6.0	5.4
Adjusted debt/equity	1.8	1.1	0.8	0.7
Valuation ratios (x)				
EV/Sales	0.9	0.7	0.7	0.6
EV/EBITDA	3.0	2.2	2.7	2.9
P/E	1.3	1.0	1.5	1.9
P/BV	0.6	0.4	0.3	0.3

Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	10.2	10.9	12.0	12.0
ROIC (%)	22.2	25.7	16.4	11.9
Invested capital (Rs mn)	10,034	10,465	13,390	13,525
EVA (Rs mn)	1,209	1,556	590	(12)
EVA spread (%)	12.0	14.9	4.4	(0.1)

Mangalam Cement

Below-average volumes sales

Subdued volume growth as capacity addition falls short of peers: In the absence of substantial capacity additions, barring clinker upgrades of 0.3mn MT in Morak (Rajasthan), Mangalam Cement would witness subdued volume growth. We anticipate a volume sales CAGR of 6.1%, which is lower than the cement industry average of 7.5% expected over FY09-FY11.

Softening realisations would hamper sales growth: Sluggish housing activity along with a bunching of new capacities in North India is expected to result in surplus supply of 2.4mn MT (5% of actual capacity in the north) and 5.7mn MT (10%) in FY10 and FY11 respectively. This would put pressure on net realisations, leading to a drop of ~5% in FY10 and FY11.

Higher operating expenses and depreciation to dent earnings: In times of slackening volume sales and sagging realisations, Mangalam Cement's operating expenses are expected to rise at a CAGR of 5.3% (with raw material and selling & distribution cost inflation in particular). This would result in EBITDA margins of ~23% and ~19% in FY10 and FY11 respectively. This coupled with a rise in depreciation would result in an earnings decline by ~18% CAGR over FY09-FY11.

Downgrade to Sell: We have valued Mangalam on a P/E of 2x two-year forward earnings as against 2.5x earlier on account of its exposure only to the northern region where a bunching of capacities is expected. This translates to a revised price target of Rs 44 (Rs 58 previously); we downgrade the stock from Reduce to Sell as we believe region-specific players in the small-cap space are highly susceptible to a fall in price as well as volumes. On an EV/EBITDA basis, the company is valued at 1x its two-year forward financials.

Company Update | 16 December 2008

What's New? | Target | Rating | Estimates

CMP	TARGET	RATING	RISK
Rs 48	Rs 44	SELL	HIGH

BSE	NSE	BLOOMBERG
502157	MANGLMCEM	MGC IN

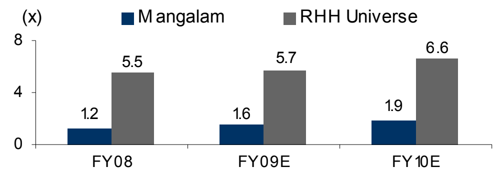
Company data

Market cap (Rs mn / US$ mn)	1,352 / 28
Outstanding equity shares (mn)	28
Free float (%)	73.1
Dividend yield (%)	10.4
52-week high/low (Rs)	204 / 38
2-month average daily volume	72,126

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Mangalam	48	(6.2)	(42.7)	(59.0)
Sensex	9,832	4.8	(27.3)	(35.3)

P/E comparison



Valuation matrix

(x)	FY07	FY08	FY09E	FY10E
P/E @ CMP	3.2	1.2	1.6	1.9
P/E @ Target	3.0	1.1	1.5	1.7
EV/EBITDA @ CMP	2.7	1.2	1.3	1.4

Financial highlights

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenue	2,280	5,099	5,536	5,613
Growth (%)	*(46.8)*	*123.6*	*8.6*	*1.4*
Adj net income	419	1,135	855	712
Growth (%)	*(39.3)*	*170.8*	*(24.7)*	*(16.7)*
FDEPS (Rs)	14.8	40.2	30.3	25.2
Growth (%)	*(39.3)*	*170.8*	*(24.7)*	*(16.7)*

Profitability and Return ratios

(%)	FY07	FY08	FY09E	FY10E
EBITDA margin	29.7	30.3	25.8	22.8
EBIT margin	27.0	26.9	21.4	18.0
Adj PAT margin	18.4	22.3	15.4	12.7
ROE	32.2	61.4	33.3	22.4
ROIC	21.2	39.1	23.2	19.0
ROCE	22.3	44.7	27.3	19.8

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**2,280**	**5,099**	**5,536**	**5,613**
Growth (%)	*(46.8)*	*123.6*	*8.6*	*1.4*
EBITDA	**676**	**1,547**	**1,426**	**1,279**
Growth (%)	*(34.3)*	*128.7*	*(7.8)*	*(10.3)*
Depreciation & amortisation	61	177	243	269
EBIT	615	1,370	1,183	1,010
Growth (%)	*(32.4)*	*122.6*	*(13.6)*	*(14.6)*
Interest	6	29	34	25
Other income	20	58	77	37
EBT	629	1,398	1,225	1,022
Income taxes	209	263	371	309
Effective tax rate (%)	*33.3*	*18.8*	*30.2*	*30.3*
Extraordinary items	-	-	-	-
Min int / inc from associates	-	-	-	-
Reported net income	419	1,135	855	712
Adjustments	-	-	-	-
Adjusted net income	**419**	**1,135**	**855**	**712**
Growth (%)	*(39.3)*	*170.8*	*(24.7)*	*(16.7)*
Shares outstanding (mn)	28.2	28.2	28.2	28.2
FDEPS (Rs) (adj)	**14.8**	**40.2**	**30.3**	**25.2**
Growth (%)	*(39.3)*	*170.8*	*(24.7)*	*(16.7)*
DPS (Rs)	2.0	5.0	5.0	5.0

Balance sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash and cash eq	251	145	77	453
Accounts receivable	34	54	146	153
Inventories	432	849	563	653
Other current assets	402	793	830	842
Investments	11	60	60	60
Gross fixed assets	3,010	4,468	5,260	5,510
Net fixed assets	1,100	2,387	2,935	2,916
CWIP	842	192	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(252)	(469)	(469)	(469)
Other assets	-	-	-	-
Total assets	**2,819**	**4,011**	**4,143**	**4,608**
Accounts payable	157	303	219	300
Other current liabilities	143	147	147	147
Provisions	277	617	292	280
Debt funds	766	724	574	424
Other liabilities	-	-	-	-
Equity capital	282	282	282	282
Reserves & surplus	1,194	1,938	2,628	3,175
Shareholder's funds	1,477	2,221	2,910	3,457
Total liabilities	**2,819**	**4,011**	**4,143**	**4,608**
BVPS (Rs)	52.3	78.6	103.0	122.4

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net income+Depreciation	480	1,313	1,098	981
Non-cash adjustments	128	(79)	(324)	(12)
Changes in working capital	(76)	(368)	74	(28)
Cash flow from operations	533	866	847	942
Capital expenditure	(718)	(815)	(600)	(250)
Change in investments	-	(50)	-	-
Other investing cashflow	-	-	-	-
Cash flow from investing	(718)	(865)	(600)	(250)
Issue of equity	-	-	0	0
Issue/repay debt	329	(42)	(150)	(150)
Dividends paid	-	(65)	(165)	(165)
Other financing cashflow	-	-	-	-
Change in cash & cash eq	143	(106)	(68)	376
Closing cash & cash eq	251	145	77	453

Financial ratios

Y/E March	FY07	FY08	FY09E	FY10E
Profitability & Return ratios (%)				
EBITDA margin	29.7	30.3	25.8	22.8
EBIT margin	27.0	26.9	21.4	18.0
Net profit margin	18.4	22.3	15.4	12.7
ROE	32.2	61.4	33.3	22.4
ROCE	22.3	44.7	27.3	19.8
Working Capital & Liquidity ratios				
Receivables (days)	5	3	7	10
Inventory (days)	88	66	63	51
Payables (days)	32	24	23	22
Current ratio (x)	3.7	4.1	4.4	4.7
Quick ratio (x)	0.5	0.4	0.6	1.4
Turnover & Leverage ratios (x)				
Gross asset turnover	0.8	1.4	1.1	1.0
Total asset turnover	1.0	1.5	1.4	1.3
Interest coverage ratio	95.4	46.5	34.3	39.7
Adjusted debt/equity	0.5	0.3	0.2	0.1
Valuation ratios (x)				
EV/Sales	0.8	0.4	0.3	0.3
EV/EBITDA	2.7	1.2	1.3	1.4
P/E	3.2	1.2	1.6	1.9
P/BV	0.9	0.6	0.5	0.4

Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	13.4	14.2	12.7	12.7
ROIC (%)	21.2	39.1	23.2	19.0
Invested capital (Rs mn)	2,268	3,419	3,702	3,711
EVA (Rs mn)	177	851	386	232
EVA spread (%)	7.8	24.9	10.4	6.2

Orient Paper & Industries

Best play among small caps

Capacity expansion on track: Orient Paper's (OPIL) third phase of cement capacity expansion from 3.4mn MT to 5mn MT is progressing as scheduled and is expected to start production by Q1FY10. The 50MW captive power plant at its Devapur cement unit is also expected to become operational by Q4FY09. This is expected to translate into a revenue CAGR of 13% in FY09-FY11.

Other businesses to provide stimulus to revenue growth: The company's tissue paper capacity expansion (15,000MT) is also on track to become operational by Q4FY09, which would enable a revenue CAGR of 17% for the paper division over FY09E-FY11E. Further, the electrical division which comprises fans and energy efficient lighting is expected to post a 11% revenue CAGR over this period. The company has started marketing energy efficient lighting in six states and expects to achieve a pan-India presence.

Earnings forecast reduced on lower volumes and higher expenses: We have revised our EPS estimates downwards by 3% and 13.4% for FY09 and FY10 respectively. This is mainly on account of the anticipated drop in cement volumes and increase in operating expenses.

Target price revised downward – maintain Buy: Based on our target P/E multiple of 3x its two-year forward EPS of Rs 13.1, we arrive at a target price of Rs 39 as against our earlier estimate of Rs 44. On EV/EBITDA basis, the company is valued at 2x its two-year forward financials. In our view, OPIL is well placed to weather the downturn in the sector as its cement capacity expansion is complete and its business model is well diversified; we believe the company is the best small-cap pick in the sector and thus maintain a Buy rating on the stock.

Revised estimates

Key parameters	FY10E		
	Old	New	% Chg
Cement volumes (mn MT)	4.2	3.9	(6.7)
Net sales	18,520	17,634	(4.8)
EBITDA	4,857	4,300	(11.5)
EBITDA margin (%)	26.2	24.4	(184bps)
Adj PAT	2,848	2,467	(13.4)
Adj EPS (Rs)	14.8	12.8	(13.4)

Source: RHH

Company Update | 16 December 2008

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 21	Rs 39	BUY	MEDIUM

BSE	NSE	BLOOMBERG
502420	ORIENTPPR	OPI IN

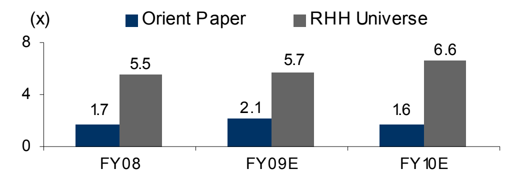
Company data

Market cap (Rs mn / US$ mn)	4,051 / 84
Outstanding equity shares (mn)	193
Free float (%)	63.4
Dividend yield (%)	7.1
52-week high/low (Rs)	85 / 17
2-month average daily volume	126,913

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Orient Paper	21	(6.7)	(34.0)	(44.4)
Sensex	9,832	4.8	(27.3)	(35.3)

P/E comparison



Valuation matrix

(x)	FY07	FY08	FY09E	FY10E
P/E @ CMP	2.4	1.7	2.1	1.6
P/E @ Target	4.5	3.2	4.0	3.1
EV/EBITDA @ CMP	2.4	1.8	1.9	1.4

Financial highlights

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenue	11,018	12,960	14,768	17,634
Growth (%)	*28.1*	*17.6*	*13.9*	*19.4*
Adj net income	1,307	2,045	1,891	2,467
Growth (%)	*505.6*	*56.5*	*(7.5)*	*30.5*
FDEPS (Rs)	8.8	12.1	9.8	12.8
Growth (%)	*505.6*	*37.6*	*(19.1)*	*30.5*

Profitability and Return ratios

(%)	FY07	FY08	FY09E	FY10E
EBITDA margin	22.9	26.3	22.3	24.4
EBIT margin	20.5	24.2	19.7	21.3
Adj PAT margin	11.9	15.8	12.8	14.0
ROE	130.8	63.8	33.5	33.0
ROIC	30.3	35.4	24.2	24.5
ROCE	32.7	37.4	26.2	26.3

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**11,018**	**12,960**	**14,768**	**17,634**
Growth (%)	*28.1*	*17.6*	*13.9*	*19.4*
EBITDA	**2,522**	**3,406**	**3,297**	**4,300**
Growth (%)	*134.7*	*35.0*	*(3.2)*	*30.4*
Depreciation & amortisation	262	271	387	547
EBIT	2,260	3,136	2,910	3,753
Growth (%)	*179.5*	*38.7*	*(7.2)*	*28.9*
Interest	327	175	143	173
Other income	27	175	119	186
EBT	1,960	3,135	2,886	3,766
Income taxes	653	1,090	996	1,299
Effective tax rate (%)	*33.3*	*34.8*	*34.5*	*34.5*
Extraordinary items	-	-	-	-
Min int / inc from associates	-	-	-	-
Reported net income	1,307	2,045	1,891	2,467
Adjustments	-	-	-	-
Adjusted net income	**1,307**	**2,045**	**1,891**	**2,467**
Growth (%)	*505.6*	*56.5*	*(7.5)*	*30.5*
Shares outstanding (mn)	148.4	192.9	192.9	192.9
FDEPS (Rs) (adj)	**8.8**	**12.1**	**9.8**	**12.8**
Growth (%)	*505.6*	*37.6*	*(19.1)*	*30.5*
DPS (Rs)	1.3	1.2	1.5	1.5

Balance sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash and cash eq	171	260	72	820
Accounts receivable	1,236	1,358	1,618	1,933
Inventories	926	990	1,194	1,461
Other current assets	1,083	812	812	812
Investments	134	92	92	92
Gross fixed assets	6,944	7,684	12,680	14,680
Net fixed assets	2,857	3,340	7,950	9,402
CWIP	656	1,997	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(464)	(518)	(662)	(850)
Other assets	121	54	54	54
Total assets	**6,720**	**8,386**	**11,130**	**13,724**
Accounts payable	1,350	1,239	1,886	2,009
Other current liabilities	211	300	-	-
Provisions	179	253	608	660
Debt funds	3,240	1,653	2,153	2,453
Other liabilities	-	-	-	-
Equity capital	348	263	263	263
Reserves & surplus	1,392	4,678	6,220	8,339
Shareholder's funds	1,740	4,941	6,483	8,601
Total liabilities	**6,720**	**8,386**	**11,130**	**13,724**
BVPS (Rs)	10.4	25.2	33.2	44.2

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net income+Depreciation	1,569	2,316	2,278	3,014
Non-cash adjustments	465	460	315	240
Changes in working capital	(132)	(314)	(117)	(458)
Cash flow from operations	1,901	2,461	2,475	2,796
Capital expenditure	(656)	(2,046)	(3,000)	(2,000)
Change in investments	0	0	-	-
Other investing cashflow	(0)	-	-	-
Cash flow from investing	(656)	(2,046)	(3,000)	(2,000)
Issue of equity	-	1,578	-	-
Issue/repay debt	(1,153)	(1,636)	500	300
Dividends paid	(166)	(233)	(163)	(348)
Other financing cashflow	-	(130)	-	-
Change in cash & cash eq	(74)	(6)	(188)	748
Closing cash & cash eq	171	260	72	820

Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	10.4	13.3	12.8	12.8
ROIC (%)	30.3	35.4	24.2	24.5
Invested capital (Rs mn)	4,981	6,577	9,159	10,881
EVA (Rs mn)	989	1,456	1,048	1,278
EVA spread (%)	19.9	22.1	11.4	11.7

Financial ratios

Y/E March	FY07	FY08	FY09E	FY10E
Profitability & Return ratios (%)				
EBITDA margin	22.9	26.3	22.3	24.4
EBIT margin	20.5	24.2	19.7	21.3
Net profit margin	11.9	15.8	12.8	14.0
ROE	130.8	63.8	33.5	33.0
ROCE	32.7	37.4	26.2	26.3
Working Capital & Liquidity ratios				
Receivables (days)	39	37	37	37
Inventory (days)	38	37	35	36
Payables (days)	53	49	50	53
Current ratio (x)	2.2	2.2	2.0	2.5
Quick ratio (x)	0.9	1.1	0.9	1.4
Turnover & Leverage ratios (x)				
Gross asset turnover	1.6	1.8	1.5	1.3
Total asset turnover	1.7	1.7	1.5	1.4
Interest coverage ratio	6.9	17.9	20.4	21.7
Adjusted debt/equity	1.9	0.3	0.3	0.3
Valuation ratios (x)				
EV/Sales	0.6	0.5	0.4	0.3
EV/EBITDA	2.4	1.8	1.9	1.4
P/E	2.4	1.7	2.1	1.6
P/BV	2.0	0.8	0.6	0.5

Shree Cement

Strong margins but susceptible to regional headwinds

Company Update | 16 December 2008

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 460	Rs 485	ACCUMULATE	HIGH

BSE	NSE	BLOOMBERG
500387	SHREECEM	SRCM IN

Healthy volume growth owing to timely expansion: Shree Cement's current capacity stands at 9.1mn MT. The company is augmenting its Ras (Rajasthan) clinker unit by 1mn MT in Q2FY10, while simultaneously introducing a 1mn MT grinding facility in Suratgarh (Rajasthan) and a 1.5mn MT unit in Roorkee (Uttaranchal). On the back of augmented capacities, we expect the company to clock a 7.3% CAGR in cement volume sales over FY09-FY11.

Net realisations to remain cramped: The demand slump in the northern region is likely to persist owing to waning offtake from real estate developers. Bunching of capacities would aggravate matters as we anticipate a surplus build-up of 2.4mn MT (5% of actual capacity) in FY10 in the north. We thus estimate that the company's realisations would drop by 4–5% in FY11.

Operating efficiencies will insulate margins: By maintaining strict control over operating costs, Shree Cement has been able to enjoy strong EBITDA margins – the highest across the RHH cement universe. Although declining realisations would be a dampener, we expect the company to clock among the best margins at 33.1% and 30% in FY09 and FY10 respectively.

Earnings to decline by 13% CAGR: Shree Cement's earnings are projected to decline at a 13% CAGR over FY09-FY11. This can be attributed to lower volume growth and lower operating profits.

Earnings revised; downgrade to Accumulate: We have revised our FY10 sales volume estimate from 9mn MT to 8.4mn MT considering lower demand growth. Earnings have been reduced by 17% in FY10. Our target P/E multiple of 5x two-year forward earnings of Rs 97 yields a target price of Rs 485 as against Rs 619 earlier; we downgrade the stock from Buy to Accumulate. On an EV/EBITDA basis, the company is valued at 3x its two-year forward financials.

Revised estimates

Key parameters	FY10E		
	Old	New	% Chg
Cement volumes (mn MT)	9.0	8.4	(7.1)
Revenue (Rs mn)	27,120	25,185	(7.1)
EBITDA (Rs mn)	8,577	7,554	(11.9)
EBITDA margin (%)	31.6	30.0	(161bps)
Adj PAT (Rs mn)	4,383	3,619	(17.4)
Adj EPS (Rs)	125.8	103.9	(17.4)

Source: RHH

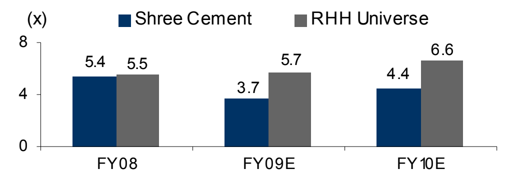
Company data

Market cap (Rs mn / US$ mn)	16,028 / 334
Outstanding equity shares (mn)	35
Free float (%)	36.3
Dividend yield (%)	2.2
52-week high/low (Rs)	1,600 / 320
2-month average daily volume	12,893

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Shreecem	460	4.8	(16.5)	(30.6)
Sensex	9,832	4.8	(27.3)	(35.3)

P/E comparison



Valuation matrix

(x)	FY07	FY08	FY09E	FY10E
P/E @ CMP	10.3	5.4	3.7	4.4
P/E @ Target	10.9	5.6	3.9	4.7
EV/EBITDA @ CMP	3.9	2.7	2.8	3.1

Financial highlights

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenue	13,680	20,659	24,902	25,185
Growth (%)	*104.4*	*51.0*	*20.5*	*1.1*
Adj net income	1,558	2,993	4,328	3,619
Growth (%)	*294.6*	*92.1*	*44.6*	*(16.4)*
FDEPS (Rs)	44.7	85.9	124.2	103.9
Growth (%)	*294.6*	*92.1*	*44.6*	*(16.4)*

Profitability and Return ratios

(%)	FY07	FY08	FY09E	FY10E
EBITDA margin	43.1	41.7	33.1	30.0
EBIT margin	11.5	18.6	23.9	19.5
Adj PAT margin	11.4	14.5	17.4	14.4
ROE	36.4	50.9	49.8	29.5
ROIC	15.2	18.9	22.8	17.1
ROCE	14.8	19.3	23.1	18.3

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**13,680**	**20,659**	**24,902**	**25,185**
Growth (%)	*104.4*	*51.0*	*20.5*	*1.1*
EBITDA	**5,897**	**8,624**	**8,247**	**7,554**
Growth (%)	*166.0*	*46.2*	*(4.4)*	*(8.4)*
Depreciation & amortisation	4,331	4,788	2,296	2,655
EBIT	1,567	3,837	5,951	4,899
Growth (%)	*171.3*	*144.9*	*55.1*	*(17.7)*
Interest	104	497	628	508
Other income	213	733	860	780
EBT	1,676	4,072	6,182	5,170
Income taxes	118	1,079	1,855	1,551
Effective tax rate (%)	*7.0*	*26.5*	*30.0*	*30.0*
Extraordinary items	212	(389)	-	-
Min int / inc from associates	-	-	-	-
Reported net income	1,770	2,604	4,328	3,619
Adjustments	212	(389)	-	-
Adjusted net income	**1,558**	**2,993**	**4,328**	**3,619**
Growth (%)	*294.6*	*92.1*	*44.6*	*(16.4)*
Shares outstanding (mn)	34.8	34.8	34.8	34.8
FDEPS (Rs) (adj)	**44.7**	**85.9**	**124.2**	**103.9**
Growth (%)	*294.6*	*92.1*	*44.6*	*(16.4)*
DPS (Rs)	6.0	8.0	10.0	10.0

Balance sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash and cash eq	3,533	4,674	3,403	1,566
Accounts receivable	263	494	682	690
Inventories	1,561	1,766	2,510	2,657
Other current assets	2,384	4,026	4,026	4,026
Investments	500	5,910	6,410	6,910
Gross fixed assets	16,571	21,872	24,053	29,053
Net fixed assets	5,479	7,599	7,483	9,828
CWIP	3,438	180	-	-
Intangible assets	3	1	-	-
Deferred tax assets, net	37	185	185	185
Other assets	-	-	-	-
Total assets	**17,198**	**24,834**	**24,699**	**25,861**
Accounts payable	1,492	1,668	2,388	2,415
Other current liabilities	471	694	313	313
Provisions	883	2,437	876	800
Debt funds	9,314	13,307	10,474	8,474
Other liabilities	-	-	-	-
Equity capital	348	348	348	348
Reserves & surplus	4,689	6,380	10,300	13,511
Shareholder's funds	5,038	6,728	10,648	13,859
Total liabilities	**17,198**	**24,834**	**24,699**	**25,861**
BVPS (Rs)	144.6	193.1	305.6	397.8

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net income+Depreciation	6,101	7,391	6,624	6,274
Non-cash adjustments	(1,060)	(102)	(1,642)	(76)
Changes in working capital	(380)	(539)	(593)	(128)
Cash flow from operations	4,660	6,750	4,388	6,071
Capital expenditure	(5,974)	(4,234)	(2,000)	(5,000)
Change in investments	(493)	(5,369)	(500)	(500)
Other investing cashflow	-	-	-	-
Cash flow from investing	(6,467)	(9,602)	(2,500)	(5,500)
Issue of equity	-	-	(0)	(0)
Issue/repay debt	5,586	3,993	(2,833)	(2,000)
Dividends paid	(437)	-	(326)	(408)
Other financing cashflow	-	-	-	-
Change in cash & cash eq	3,342	1,141	(1,272)	(1,837)
Closing cash & cash eq	3,533	4,674	3,403	1,566

Financial ratios

Y/E March	FY07	FY08	FY09E	FY10E
Profitability & Return ratios (%)				
EBITDA margin	43.1	41.7	33.1	30.0
EBIT margin	11.5	18.6	23.9	19.5
Net profit margin	11.4	14.5	17.4	14.4
ROE	36.4	50.9	49.8	29.5
ROCE	14.8	19.3	23.1	18.3
Working Capital & Liquidity ratios				
Receivables (days)	6	7	9	10
Inventory (days)	63	50	47	53
Payables (days)	59	48	44	50
Current ratio (x)	3.9	4.6	3.9	3.3
Quick ratio (x)	1.9	2.2	1.5	0.8
Turnover & Leverage ratios (x)				
Gross asset turnover	0.9	1.1	1.1	0.9
Total asset turnover	1.1	1.0	1.0	1.0
Interest coverage ratio	15.1	7.7	9.5	9.6
Adjusted debt/equity	1.9	2.0	1.0	0.6
Valuation ratios (x)				
EV/Sales	1.7	1.1	0.9	0.9
EV/EBITDA	3.9	2.7	2.8	3.1
P/E	10.3	5.4	3.7	4.4
P/BV	3.2	2.4	1.5	1.2

Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	9.6	9.5	10.5	10.5
ROIC (%)	15.2	18.9	22.8	17.1
Invested capital (Rs mn)	11,840	17,958	18,595	21,567
EVA (Rs mn)	665	1,690	2,279	1,411
EVA spread (%)	5.6	9.4	12.3	6.5

UltraTech Cement

Timely expansion a key advantage

Lower risk to free cash flows: UltraTech Cement is in an advantageous position since it is among the few players in the sector to have completed its capacity expansion projects. Thus, in the event of worsening sector dynamics, the company's free cash flows will not be significantly hampered as the incremental capex burden would be limited. We expect UltraTech to generate a FCFE of Rs 1.1bn in FY10.

Scope to corner market share: If rival players were to witness delays in capacity expansion in UltraTech's area of operations, the company will be able to capture a larger market share by virtue of its concluded capex programme. This could possibly result in higher revenue growth than expected going forward.

Revenues increasing marginally but earnings to decline: We have estimated a 1.5% CAGR increase in revenues over FY09-FY11 assuming volume growth of 4% during this period. However, the lead distance to market for the company is expected to increase, which would result in lower EBITDA margins for the next two years (dropping 390bps in FY09 and 156bps in FY10). Lower operating profit would lead to an earnings decline at a 12.8% CAGR over FY09-FY11.

Maintain Buy: We have reduced our earnings estimates for FY10 and also downgraded our target P/E multiple for UltraTech from 7.5x to 7x two-year forward earnings mainly on account of sector concerns and the demand slowdown. Our revised target price equates to Rs 409 as against Rs 470 previously, which still signifies a significant upside potential for the stock. Further on an EV/EBITDA basis, the company is valued at 4x two-year forward financials. With limited downside to earnings and attractive valuations, we maintain our Buy recommendation on the stock.

Key parameters	FY10E		
	Old	New	% Chg
Cement Volumes (mn MT)	19.1	19.1	0.0
Revenue (Rs mn)	61,434	61,434	0.0
EBITDA (Rs mn)	16,358	15,784	(3.5)
EBITDA margin (%)	26.6	25.7	(93bps)
Adj PAT (Rs mn)	8,271	7,866	(4.9)
Adj EPS (Rs)	66.4	63.2	(4.9)

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 347	Rs 409	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532538	ULTRACEMCO	UTCEM IN

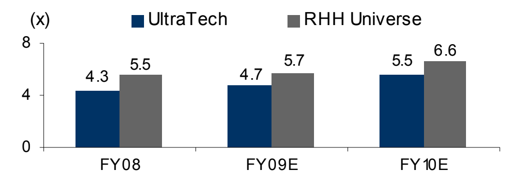
Company data

Market cap (Rs mn / US$ mn)	43,248 / 900
Outstanding equity shares (mn)	124
Free float (%)	45.5
Dividend yield (%)	1.4
52-week high/low (Rs)	1,102 / 245
2-month average daily volume	230,255

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
UltraTech	347	7.6	(36.0)	(45.6)
Sensex	9,832	4.8	(27.3)	(35.3)

P/E comparison



Valuation matrix

(x)	FY07	FY08	FY09E	FY10E
P/E @ CMP	5.5	4.3	4.7	5.5
P/E @ Target	6.5	5.1	5.6	6.5
EV/EBITDA @ CMP	4.2	3.5	3.6	3.8

Financial highlights

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenue	49,105	55,092	60,301	61,434
Growth (%)	*48.8*	*12.2*	*9.5*	*1.9*
Adj net income	7,823	10,076	9,175	7,866
Growth (%)	*240.5*	*28.8*	*(8.9)*	*(14.3)*
FDEPS (Rs)	62.8	80.9	73.7	63.2
Growth (%)	*240.2*	*28.8*	*(8.9)*	*(14.3)*

Profitability and Return ratios

(%)	FY07	FY08	FY09E	FY10E
EBITDA margin	28.9	31.2	27.3	25.7
EBIT margin	24.3	26.9	22.0	19.0
Adj PAT margin	15.9	18.3	15.2	12.8
ROE	55.8	45.2	29.4	20.2
ROIC	30.8	27.5	19.5	14.8
ROCE	28.5	27.0	20.3	15.6

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	**49,105**	**55,092**	**60,301**	**61,434**
Growth (%)	*48.8*	*12.2*	*9.5*	*1.9*
EBITDA	**14,178**	**17,201**	**16,434**	**15,784**
Growth (%)	*155.8*	*21.3*	*(4.5)*	*(4.0)*
Depreciation & amortisation	2,263	2,372	3,192	4,140
EBIT	11,916	14,828	13,242	11,644
Growth (%)	*252.3*	*24.4*	*(10.7)*	*(12.1)*
Interest	868	757	1,037	909
Other income	615	999	756	843
EBT	11,662	15,070	12,962	11,578
Income taxes	3,839	4,994	3,786	3,711
Effective tax rate (%)	*32.9*	*33.1*	*29.2*	*32.1*
Extraordinary items	-	-	-	-
Min int / inc from associates	-	-	-	-
Reported net income	7,823	10,076	9,175	7,866
Adjustments	-	-	-	-
Adjusted net income	**7,823**	**10,076**	**9,175**	**7,866**
Growth (%)	*240.5*	*28.8*	*(8.9)*	*(14.3)*
Shares outstanding (mn)	124.5	124.5	124.5	124.5
FDEPS (Rs) (adj)	**62.8**	**80.9**	**73.7**	**63.2**
Growth (%)	*240.2*	*28.8*	*(8.9)*	*(14.3)*
DPS (Rs)	4.0	5.0	5.0	5.0

Balance sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Cash and cash eq	896	1,007	546	1,138
Accounts receivable	1,835	2,166	2,313	2,356
Inventories	4,336	6,098	7,434	7,574
Other current assets	2,535	3,768	3,768	3,768
Investments	4,835	1,709	1,709	2,209
Gross fixed assets	47,847	49,726	83,258	89,258
Net fixed assets	25,173	25,005	55,344	57,204
CWIP	6,970	22,832	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(5,603)	(5,424)	(5,256)	(5,089)
Other assets	-	-	-	-
Total assets	**40,976**	**57,161**	**65,859**	**69,160**
Accounts payable	4,640	7,768	9,086	9,257
Other current liabilities	2,727	3,762	2,764	2,764
Provisions	185	1,256	1,437	1,429
Debt funds	15,786	17,405	17,155	13,155
Other liabilities	-	-	-	-
Equity capital	1,245	1,245	1,245	1,245
Reserves & surplus	16,393	25,725	34,172	41,310
Shareholder's funds	17,638	26,970	35,417	42,555
Total liabilities	**40,976**	**57,161**	**65,859**	**69,160**
BVPS (Rs)	141.7	216.6	284.5	341.8

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E
Net income+Depreciation	10,085	12,448	12,367	12,007
Non-cash adjustments	(316)	87	14	(175)
Changes in working capital	767	703	(1,164)	(12)
Cash flow from operations	10,536	13,239	11,217	11,820
Capital expenditure	(7,645)	(17,931)	(10,700)	(6,000)
Change in investments	(3,107)	3,136	-	(500)
Other investing cashflow	-	-	-	-
Cash flow from investing	(10,752)	(14,795)	(10,700)	(6,500)
Issue of equity	0	-	0	0
Issue/repay debt	1,312	1,667	(250)	(4,000)
Dividends paid	(816)	-	(728)	(728)
Other financing cashflow	-	-	-	-
Change in cash & cash eq	280	111	(461)	591
Closing cash & cash eq	896	1,007	546	1,138

Economic Value Added (EVA) analysis

Y/E March	FY07	FY08	FY09E	FY10E
WACC (%)	11.2	11.7	12.3	12.3
ROIC (%)	30.8	27.5	19.5	14.8
Invested capital (Rs mn)	28,441	43,680	52,519	54,558
EVA (Rs mn)	5,552	6,884	3,764	1,339
EVA spread (%)	19.5	15.8	7.2	2.5

Financial ratios

Y/E March	FY07	FY08	FY09E	FY10E
Profitability & Return ratios (%)				
EBITDA margin	28.9	31.2	27.3	25.7
EBIT margin	24.3	26.9	22.0	19.0
Net profit margin	15.9	18.3	15.2	12.8
ROE	55.8	45.2	29.4	20.2
ROCE	28.5	27.0	20.3	15.6
Working Capital & Liquidity ratios				
Receivables (days)	13	13	14	14
Inventory (days)	42	50	56	60
Payables (days)	41	60	70	73
Current ratio (x)	1.3	1.1	1.2	1.2
Quick ratio (x)	0.4	0.3	0.2	0.3
Turnover & Leverage ratios (x)				
Gross asset turnover	1.0	1.1	0.9	0.7
Total asset turnover	1.4	1.1	1.0	0.9
Interest coverage ratio	13.7	19.6	12.8	12.8
Adjusted debt/equity	0.9	0.7	0.5	0.3
Valuation ratios (x)				
EV/Sales	1.2	1.1	1.0	1.0
EV/EBITDA	4.2	3.5	3.6	3.8
P/E	5.5	4.3	4.7	5.5
P/BV	2.5	1.6	1.2	1.0

Financial snapshot

Company	Bloomberg Code	CMP (Rs)	Target (Rs)	Reco	MCap (Rs mn)	Dividend Yield (%)	Sales (Rs mn)			Sales Growth (%)			EBITDA (Rs mn)			PAT (Rs mn)			FDEPS (Rs)			FDEPS Growth (%)		
							FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
ACC	ACC IN	514	430	SELL	96,518	3.9	70,072	77,960	78,789	20.7	11.3	1.1	19,174	19,710	16,980	12,284	12,321	9,772	65.4	65.6	52.0	9.2	0.2	(20.7)
Ambuja	ACEM IN	67	49	SELL	101,925	5.2	57,048	60,697	58,995	(9.1)	6.4	(2.8)	20,451	18,393	15,265	12,976	12,267	9,199	8.5	8.1	6.0	(11.6)	(5.5)	(25.0)
Birla Corp.	BCORP IN	116	127	ACCU	8,941	4.3	17,248	17,281	19,182	10.1	0.2	11.0	6,014	4,368	4,069	4,196	3,299	3,057	54.5	42.8	39.7	28.6	(21.4)	(7.3)
Grasim	GRASIM.IN	1,174	1,344	BUY	107,635	2.6	102,151	106,764	103,130	19.2	4.5	(3.4)	30,467	27,578	28,382	20,005	18,911	18,307	218.2	206.3	199.7	32.5	(5.5)	(3.2)
India Cem	ICEM IN	100	102	REDU	28,088	3.0	30,442	37,050	38,342	35.0	21.7	3.5	10,794	11,967	10,502	6,857	6,867	5,603	26.0	23.4	19.1	21.2	(9.9)	(18.4)
JK Lakshmi	JKLC.IN	41	37	SELL	2,524	7.1	11,077	11,593	12,417	31.3	4.7	7.1	3,513	2,937	2,653	2,447	1,668	1,357	42.1	27.3	22.2	27.8	(35.2)	(18.6)
Mangalam	MGC.IN	48	44	SELL	1,352	10.4	5,099	5,536	5,613	123.6	8.6	1.4	1,547	1,426	1,279	1,135	855	712	40.2	30.3	25.2	170.8	(24.7)	(16.7)
Orient Paper	OPI.IN	21	39	BUY	4,051	7.1	12,960	14,768	17,634	17.6	13.9	19.4	3,406	3,297	4,300	2,045	1,891	2,467	12.1	9.8	12.8	37.6	(19.1)	30.5
Shree Cem	SRCM.IN	460	485	ACCU	16,028	2.2	20,659	24,902	25,185	51.0	20.5	1.1	8,624	8,247	7,554	2,993	4,328	3,619	85.9	124.2	103.9	92.1	44.6	(16.4)
UltraTech	UTCEM.IN	347	409	BUY	43,248	1.4	55,092	60,301	61,434	12.2	9.5	1.9	17,201	16,434	15,784	10,076	9,175	7,866	80.9	73.7	63.2	28.8	(8.9)	(14.3)
Aggregate	-	-	-	-	-	-	381,847	416,852	420,722	16.0	9.2	0.9	121,190	114,355	106,769	75,013	71,581	61,959	-	-	-	-	-	-

Source: RHH

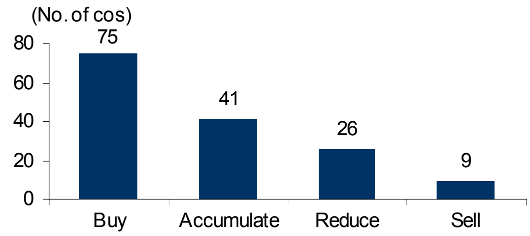
Key ratios & Valuations

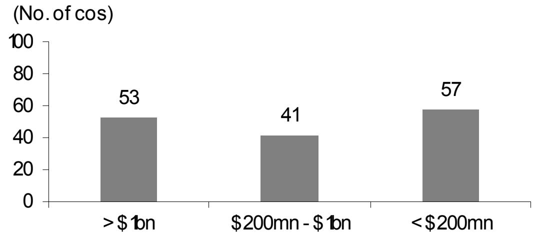
Company	EBITDA Margin (%)			PAT Margin (%)			ROE (%)			ROCE (%)			Adj. Debt/Equity Ratio (x)			P/E (x)			EV/EBITDA (x)			P/BV (x)			EV/Tonne (x)		
	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
ACC	27.4	25.3	21.6	17.5	15.8	12.4	33.7	27.1	18.7	30.6	25.9	18.2	0.1	0.0	0.1	7.9	7.8	9.9	5.1	4.9	5.7	2.3	2.0	1.8	87	83	70
Ambuja	35.8	30.3	25.9	22.7	20.2	15.6	31.8	24.1	16.2	28.6	23.0	15.8	0.1	0.0	0.0	7.9	8.3	11.1	5.0	5.6	6.7	2.2	1.8	1.8	108	104	98
Birla Corp.	34.9	25.3	21.2	24.3	19.1	15.9	50.2	28.8	21.5	39.1	24.5	19.4	0.3	0.2	0.1	2.1	2.7	2.9	1.8	2.5	2.7	0.9	0.7	0.6	20	15	10
Grasim	29.8	25.8	27.5	19.6	17.7	17.8	27.8	20.8	17.0	20.1	16.3	14.4	0.4	0.3	0.2	5.4	5.7	5.9	4.2	4.6	4.5	1.3	1.1	0.9	NA	NA	NA
India Cem	35.5	32.3	27.4	22.5	18.5	14.6	24.8	19.0	13.5	16.9	14.2	10.9	0.4	0.3	0.2	3.8	4.2	5.2	3.9	3.5	4.0	0.8	0.7	0.6	105	70	68
JK Lakshmi	31.7	25.3	21.4	22.1	14.4	10.9	46.3	23.3	16.0	21.9	14.6	11.4	1.1	0.8	0.7	1.0	1.5	1.9	2.2	2.7	2.9	0.4	0.3	0.3	37	36	31
Mangalam	30.3	25.8	22.8	22.3	15.4	12.7	61.4	33.3	22.4	44.7	27.3	19.8	0.3	0.2	0.1	1.2	1.6	1.9	1.2	1.3	1.4	0.6	0.5	0.4	29	21	15
Orient Paper	26.3	22.3	24.4	15.8	12.8	14.0	63.8	33.5	33.0	37.4	26.2	26.3	0.3	0.3	0.3	1.7	2.1	1.6	1.8	1.9	1.4	0.8	0.6	0.5	22	18	16
Shree Cem	41.7	33.1	30.0	14.5	17.4	14.4	50.9	49.8	29.5	19.3	23.1	18.3	2.0	1.0	0.6	5.4	3.7	4.4	2.7	2.8	3.1	2.4	1.5	1.2	80	56	48
UltraTech	31.2	27.3	25.7	18.3	15.2	12.8	45.2	29.4	20.2	27.0	20.3	15.6	0.7	0.5	0.3	4.3	4.7	5.5	3.5	3.6	3.8	1.6	1.2	1.0	75	56	51
Aggregate	31.7	27.4	25.4	19.6	17.2	14.7	33.5	24.7	18.1	24.1	19.7	15.4	0.4	0.3	0.2	5.5	5.7	6.6	3.9	4.2	4.5	1.6	1.3	1.1	-	-	-

Source: RHH

Coverage Profile

By recommendation	By market cap (US$)





Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 20%
Accumulate	Between 10% and 20%
Reduce	Up to 10%
Sell	Less than 0%

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